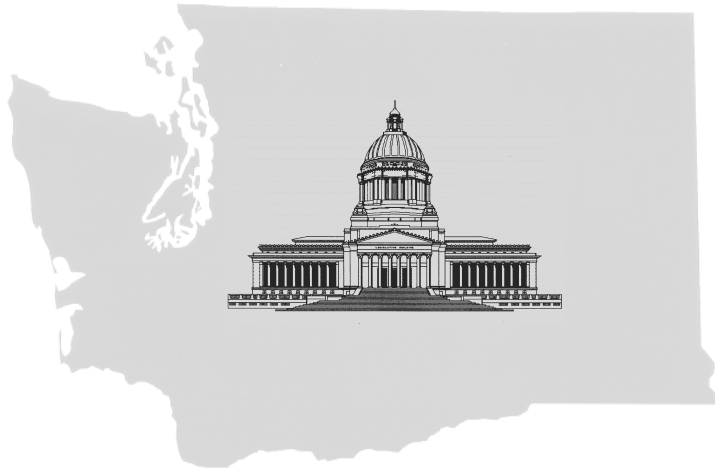


**State of Washington  
Joint Legislative Audit and Review Committee (JLARC)**



**Investing in the Environment:  
Environmental Quality Grant & Loan  
Programs Performance Audit**

**Report 01-1**

**January 22, 2001**

*Upon request, this document is available  
in alternative formats for persons with disabilities.*

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## JOINT LEGISLATIVE AUDIT AND REVIEW COMMITTEE

506 16<sup>th</sup> Avenue SE  
PO Box 40910  
Olympia, WA 98501-2323  
(360) 786-5171  
(360) 786-5180 FAX  
<http://jlarc.leg.wa.gov>

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Established by Chapter 44.28 RCW, the Joint Legislative Audit and Review Committee (formerly the Legislative Budget Committee) provides oversight of state funded programs and activities. This joint, bipartisan legislative committee consists of eight senators and eight representatives equally divided between the two major political parties.

Under the direction of the Legislative Auditor, committee staff conduct performance audits, program evaluations, sunset reviews, and other policy and fiscal studies. Studies focus on the efficiency and effectiveness of agency operations, impact of state programs, and compliance with legislative intent. As appropriate, recommendations to correct identified problem areas are included. The Legislative Auditor also has responsibility for facilitating implementation of effective performance measurement throughout state government.

**INVESTING IN THE  
ENVIRONMENT:  
ENVIRONMENTAL QUALITY  
GRANT AND LOAN PROGRAMS**

**REPORT 01-1**

**REPORT DIGEST**

JANUARY 22, 2001



STATE OF WASHINGTON

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**LEGISLATIVE AUDITOR**

Tom Sykes

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available on the JLARC website at:

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or contact

Joint Legislative Audit & Review Committee  
506 16<sup>th</sup> Avenue SE  
Olympia, WA 98501-2323  
(360) 786-5171  
(360) 786-5180 Fax  
e-mail: [neff\\_ba@leg.wa.gov](mailto:neff_ba@leg.wa.gov)

## ENVIRONMENTAL QUALITY GRANT AND LOAN PROGRAMS PERFORMANCE AUDIT

Twelve capital budget programs administered by six agencies provide grants and loans to local governments and other entities to maintain, restore, or enhance environmental quality. Examples of the broad range of projects and activities funded by the programs include construction of sewage treatment plants, hazardous waste cleanup, dairy waste management, environmental education, and salmon habitat restoration. Approximately \$440 million has been budgeted for these programs in the 1999-01 Biennium – the largest amount in their history.

This audit was initiated by the Joint Legislative Audit and Review Committee (JLARC) in response to legislative interest in the performance of the programs. The audit focuses on two primary themes: the investment performance of the programs (their effectiveness in financing projects with high environmental quality returns), and their collective ability to serve local government environmental investment needs.

### Program Overview

Most of the programs have been created since the mid-1980s to respond to emergent environmental issues in the areas of water quality, solid and hazardous waste management, habitat loss, and, most recently, endangered species recovery. The programs play an important role in a complex environmental quality system. They distribute the vast majority of the funding the state provides to local governments for environmental quality purposes, and consume **over one-fourth of the state's overall natural resources budget**.

**Requests for program funding have been growing.** The number of funding applications increased 37 percent over the past five years. During this time, programs were able to accommodate 59 percent of the \$1.4 billion in total funding requested.

There are large variations in the amount of funding provided to projects across the state's 39 counties. There are, however, **no comprehensive environmental indices** that might be used to explain these variations or gauge the impacts of expenditures. Our analysis shows that program funding allocations closely follow population – more funding is consistently allocated to projects taking place within counties with higher populations.

### Distributing Versus Investing

Environmental investments are intended to produce a return of quality improvements in water, land, or species resources. Without measurable returns, it is impossible to determine if investments have been effective. Measuring investment returns can be difficult, particularly within large and complex environmental systems.

It is often not clear how individual projects contribute to long-term solutions over time. Many of the **systemic environmental issues** we are now facing in Washington, such as salmon recovery and water quality planning for entire river basins, pose significant new challenges to making investments and measuring their returns.

Solid data is missing for monitoring environmental quality, learning from past projects, and coordinating investments across programs. While some steps have been taken towards developing meaningful environmental performance measures and coordinating projects, these efforts are only in their infancy.

At this time, the one output that is most clearly and consistently documented across programs is that money has been distributed. Thus, the programs under this audit can be characterized as being primarily **distributional** in nature.

## Program Investment Practices

Based on our research of environmental funding programs in Washington and other states, we developed a **model** for evaluating program investment practices. The model's 16 key investment practices represent a new program benchmark—a **framework for deliberate environmental investment decision making**. In comparing program structures and operations to the model, we found that many **programs performed well on basic practices related to funding distribution, but poorly in practices that ensure the effectiveness of investments**. Adoption of some of the missing key investment practices could shift the focus of program activities away from distribution and towards investment results.

## Local Government Perspectives

Eighty-two local jurisdictions and organizations across Washington that have applied for and/or received program funding commented on their capacity to make sound environmental investments, as well as on program services. These 82 local entities identified a number of barriers to making strategic long-term

environmental investments at the local level. Several cross-program service issues that increase the time, complexity, and cost of accessing program funding were also identified. Individuals from local entities offered a series of structural and process improvements to increase local capacity to make sound investments and improve program services.

## Recommendations

The report includes six recommendations intended to achieve the following:

- **Increase the systematic collection and sharing of information** about applications for funding, project locations, baseline conditions, and investment outcomes that can be used to plan and design projects, coordinate investments across programs, evaluate investment performance, and learn from past investments;
- **Integrate practices from the investment model into program structures and operations** to shift the focus of program activities towards making sound environmental investments;
- **Streamline and better integrate program services** to local governments; and
- **Ensure that funding agencies work together** to achieve these goals.

By implementing these recommendations, **confidence surrounding the state's environmental investments can be increased and services to local governments can be improved**. Being able to more clearly define and efficiently produce desired long-term environmental results across programs can help **increase certainty that policy-makers' intent to spend scarce public resources effectively will be achieved**.

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# CHAPTER I: OVERVIEW

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*Twelve capital budget programs administered by six agencies provide grants and loans to local governments and other entities for projects and activities to maintain, restore, or enhance environmental quality.<sup>1</sup>*

*Most of the programs have been created since the mid-1980s to respond to emergent environmental quality concerns including water quality, solid and hazardous waste management, and, most recently, endangered species recovery. Overall program budgets have grown in conjunction with this expansion; **current 1999-01 program budgets—\$440 million—are the largest in history.** These budgets are largely made up of capital budget appropriations from dedicated funding sources (i.e., non-general fund revenues) created specifically for the programs, along with federal funds.*

*The programs play an important role in a complex environmental quality system. They distribute the vast majority of the funding assistance the state provides to local governments for environmental quality purposes, and consume over one-fourth of the state's overall natural resources budget.*

***Overall requests for program funding have been growing.** The number of applications received by the programs increased 37 percent between fiscal years 1996 and 2000. Collectively, the programs have been able to accommodate 59 percent of the \$1.4 billion in funding assistance requested over this time period.*

*There are large variations in the amount of funding provided to projects across the state's 39 counties. **There are, however, no comprehensive environmental indices that might be used to explain these variations or to gauge the environmental quality impacts of expenditures.** Our analysis shows that overall program funding allocations closely follow population – more funding is consistently allocated to projects taking place within counties with larger populations.*

## PROGRAM SUMMARY

The 12 programs under this performance audit provide grant and loan funding<sup>2</sup> to local governments, non-profit groups, tribes, and in some cases other state agencies, for a variety of environmental projects and activities, ranging from salmon recovery to cleanup of sites contaminated by hazardous waste. Program budgets vary considerably. Both the largest program (the \$174 million Water Quality Financial Assistance Program) and the smallest (the \$0.9 million Public Participation Grants Program) reside within the Department of Ecology. In total,

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<sup>1</sup> The 12 programs do not exist within a formal grouping in the capital budget, though most fall in the natural resources functional area. Programs were selected by JLARC staff in consultation with staff from legislative standing committees, based on their environmental quality focus. Capital budget grant and loan programs primarily oriented towards outdoor recreation and drinking water were **not** included in the audit.

<sup>2</sup> Ten of the programs provide grants, one program (the Public Works Trust Fund Program) provides loans, and one program (the Department of Ecology's Water Quality Financial Assistance Program) provides both grants and loans. Appendix 3 compares the relative amount of funding allocated by the programs in the form of grants and loans.

Ecology administers one-half of all 1999-01 program funds. Seventy percent of all program funds are targeted towards water quality.<sup>3</sup>

Exhibit 1.1 below provides a summary of the major issues targeted by each program, as well as eligible applicants, types of projects funded, and current budgets.<sup>4</sup> Exhibits 1.2 and 1.3 on page 3 summarize program budgets by agency and major environmental focus, respectively.

**Exhibit 1.1**  
**Program Overview and 1999-01 Budgets**

Agency	Program	Major Issue(s) Targeted by Program	Eligible Applicants	Type of Projects and Activities Funded	1999-01 Budget
State Conservation Commission	Conservation Reserve Enhancement Program	Listing of salmon under the federal Endangered Species Act.	Conservation Districts	Riparian protection and enhancement on leased agricultural lands along salmon-bearing streams.	\$6,417,595
	Dairy Waste Management Grants Program	Water quality degradation caused by dairy farms; dairy farm compliance with water quality regulations.	Conservation Districts	Dairy farm waste management planning and pollution controls	\$5,408,546
	Water Quality Grants Program	Non-point water pollution caused by agricultural practices.	Conservation Districts	Conservation district technical assistance to farmers and implementation of agricultural best management practices to control water pollution.	\$5,194,000
Department of Ecology	Local Toxics Coordinated Prevention Grants Program	Solid and hazardous waste management at the community level.	Cities and counties	Local solid and hazardous waste management planning and implementation.	\$17,669,684
	Local Toxics Public Participation Grants Program	Participation by community groups in solid waste, hazardous waste, and contaminated site cleanup issues.	Non-profits	Independent research and information dissemination concerning local solid and hazardous waste issues.	\$896,538
	Local Toxics Remedial Action Grants Program	Contaminated hazardous waste sites owned by local governments.	Cities, counties, special purpose districts, state agencies, non-profits, and conservation districts	Development and implementation of site cleanup plans.	\$25,347,203
	Water Quality Financial Assistance Program	Water quality degradation from point and non-point sources; local government compliance with water quality regulations.	Cities, counties, tribes, special purpose districts, state agencies, non-profits, and conservation districts	Planning, design, and implementation of projects and activities to control point and non-point water pollution.	\$173,883,259
Department of Natural Resources	Aquatic Lands Enhancement Grants Program	Reduction of and/or degradation of quality natural resources on publicly accessible aquatic lands.	Cities, counties, tribes, special purpose districts, state agencies, and conservation districts	Aquatic lands acquisition/restoration and no- or low-impact public access improvements.	\$5,087,600
Interagency Committee for Outdoor Recreation / Salmon Recovery Funding Board	Washington Wildlife and Recreation Program (habitat portion)	Habitat loss.	Cities, counties, tribes, special purpose districts, state agencies, and conservation districts.	Acquisition, restoration, and protection of habitat lands.	\$25,561,000
	Salmon Recovery Grants Program	Listing of salmon under the federal Endangered Species Act.	Cities, counties, tribes, special purpose districts, state agencies, non-profits, and conservation districts	Protection and restoration of salmon habitat.	\$92,657,752
Public Works Board (within CTED)	Public Works Trust Fund Program (wastewater, stormwater, and solid waste portions)	Local government ability to afford environmental infrastructure projects.	Cities, counties, special purpose districts	Planning and construction of sewer, stormwater, and solid waste projects.	\$80,900,000
State Parks and Recreation Commission	Statewide Boat Pumpout Grants Program	Water quality degradation caused by dumping of boat sewage.	Cities, counties, tribes, special purpose districts, state agencies, non-profits, and private marinas.	Purchase and installation of boat pumpouts.	\$996,000
TOTAL					\$440,019,177

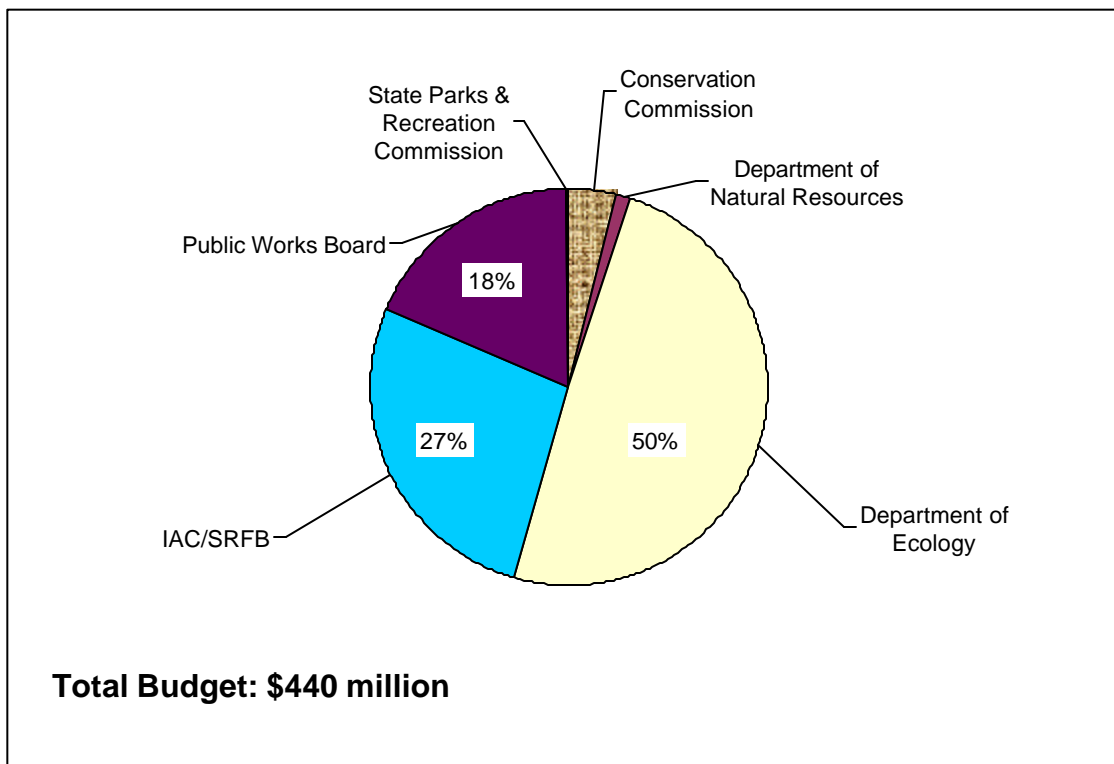
Source: Agency information reported to JLARC.

<sup>3</sup> Water quality has been the major focus of the state's funding assistance programs since the early 1970s. Over time, most of this funding has been devoted to the construction of municipal wastewater collection systems and treatment plants. Recent years have seen a shift in funding toward mitigating non-point water pollution sources.

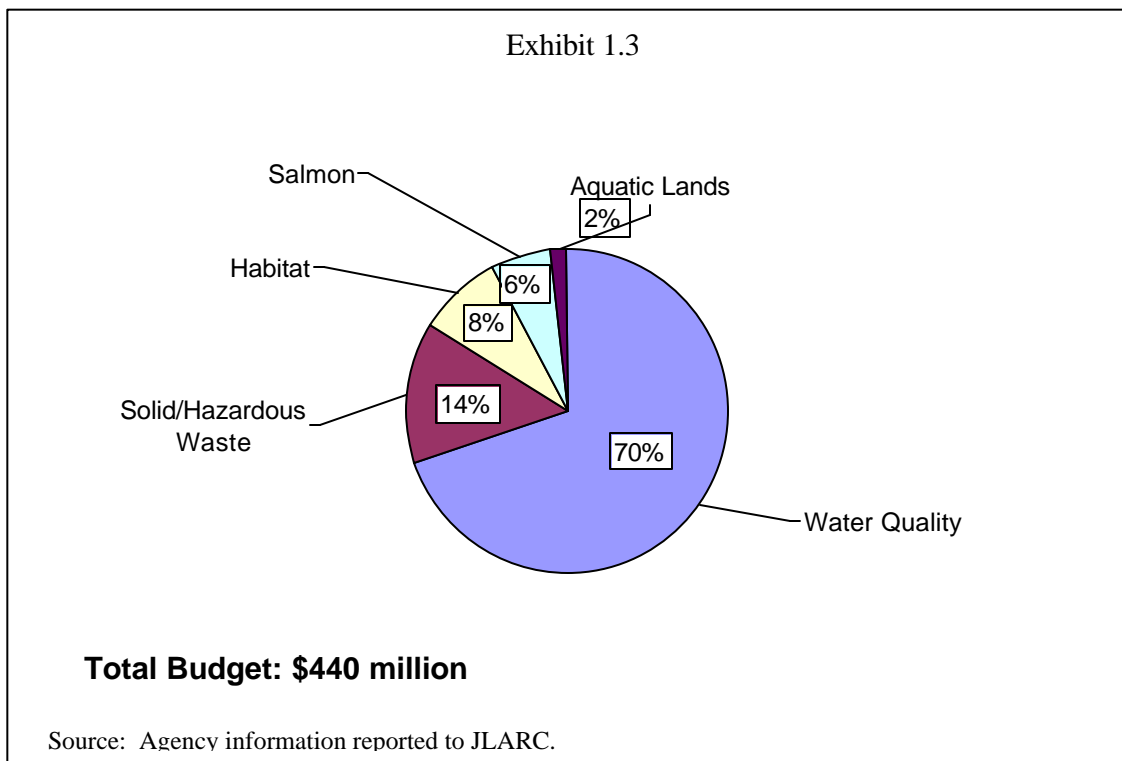
<sup>4</sup> Detail on budget figures shown in Exhibit 1.1 can be found in Appendix 4.



**Exhibit 1.2**  
**1999-01 Total Program Budgets, by Agency**



**Exhibit 1.3**  
**1999-01 Total Program Budgets, by Environmental Quality Focus**

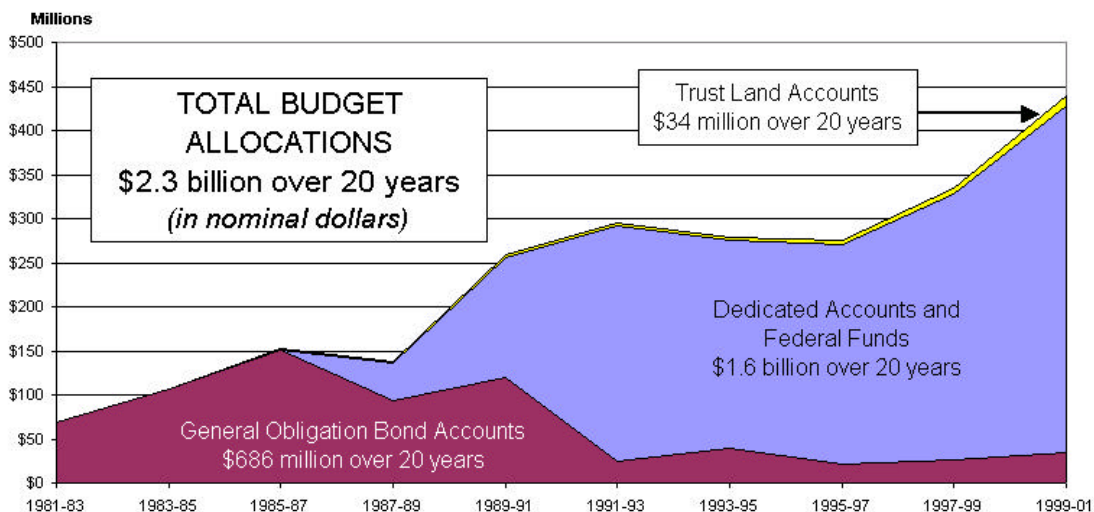


## HISTORY

State financial support of local government environmental quality and natural resource-related projects and activities has a lengthy history.<sup>5</sup> The State Soil Conservation Committee (predecessor of today's Conservation Commission) was created by the Legislature in 1939 to provide assistance to local conservation districts in preserving agricultural lands and protecting associated water bodies. The Interagency Committee for Outdoor Recreation (IAC) was created by voter initiative in 1964 to administer state and federal outdoor recreation and conservation grants. In the early 1970s, state-administered environmental quality funding assistance to local governments increased in the wake of the passage of the federal Clean Water Act and several voter-approved statewide bond measures to finance pollution control. The Department of Ecology, created by the Legislature in 1971, administered the vast majority of this new funding. As environmental quality concerns broadened beginning in the mid-1980s, new financial assistance programs were created within the Department of Ecology and other agencies to assist local governments in responding to issues such as solid and hazardous waste management, habitat conservation, non-point water pollution, and, most recently, endangered species recovery.

The overall resources devoted to these programs have grown in conjunction with this expansion. **The \$440 million in total 1999-01 appropriations are the largest in the state's history.** Most of this growth has been funded from federal revenues and new dedicated taxes created by the Legislature or Citizen Initiative, rather than the state general fund or general obligation bonds. Compared to the remainder of the capital budget, the audited programs rely heavily on dedicated accounts.<sup>6</sup> Exhibit 1.4 summarizes program budget growth and funding sources.<sup>7</sup>

**Exhibit 1.4**  
**Program Budget History and Major Funding Sources**



Source: JLARC, from the House Capital Budget Committee historical database.

<sup>5</sup> Appendix 5 highlights key events in the history of the 12 audited programs.

<sup>6</sup> As a result of this reliance, issues surrounding the status and use of dedicated revenue sources have often been a major focus of program deliberations during legislative sessions.

<sup>7</sup> Please refer to Appendix 6 for a summary of the major dedicated accounts appropriated to the programs.

## PROGRAMS PLAY AN IMPORTANT ROLE WITHIN THE LARGER ENVIRONMENTAL QUALITY SYSTEM

The 12 programs operate within a large, complex, and changing environmental quality system. The system is comprised of numerous entities (federal, state, local, and tribal governments; private companies and organizations; citizens) engaged in wide variety of activities (research and monitoring; planning; funding assistance; regulation; education and technical assistance; voluntary actions) to preserve, restore, or enhance environmental quality. This system is currently undergoing significant reexamination at all levels, primarily as a result of recent federal regulatory actions under the Endangered Species and Clean Water Acts.

The programs under review play an important role within this system. They consume over one-fourth of the state's overall natural resources budget<sup>8</sup>, and distribute the vast majority of the environmental funding assistance the state provides to local governments.<sup>9</sup> This assistance not only helps local governments afford environmental projects, it also leverages funding from other sources.<sup>10</sup> The "carrot" of state funding also influences environmental priorities and designs at the local level.<sup>11</sup>

## OVERALL REQUESTS FOR FUNDING HAVE GROWN

Though the audit was not intended or designed to evaluate the relative need for environmental quality funding at the local level<sup>12</sup>, we collected information concerning the number and value of applications received and funded by programs in recent years. Information provided by agencies indicates that overall requests for funding have been growing. **The total number of applications received by the programs increased 37 percent over the past five years.** Collectively, the programs have been able to accommodate 59 percent of the \$1.4 billion in funding assistance requested during this time period.<sup>13</sup> Detail on funding applications received and projects funded by each program is included in Exhibit 1.5 on the following page.

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<sup>8</sup> The natural resources functional area of the state budget contains the majority of state funding devoted to environmental quality. \$1.5 billion has been budgeted in this area for 1999-01 within the capital, operating, and transportation budgets. Appendix 7 provides additional detail and rationale for using the natural resources functional area budget for comparative purposes.

<sup>9</sup> In addition to the 12 programs under this performance audit, the state operates 13 other programs that provide grant funding to local governments for projects and activities directly or indirectly related to environmental quality. These other programs, which receive their funding through the operating and transportation budgets, distribute significantly less funding to local communities than the audited programs. Though these programs were not included within the scope of the audit, summary information about them can be found in Appendix 8.

<sup>10</sup> All but two programs, Ecology's Public Participation Grants Program and the Interagency Committee for Outdoor Recreation's (IAC) Washington Wildlife and Recreation Program for state agency projects, require the contribution of matching funds. Mandatory match rates vary from 5 percent to 50 percent of total project costs. Agencies report that, between fiscal years 1996-2000, \$434 million in matching funds were generated or expected to be generated for projects funded by the programs.

<sup>11</sup> Further discussion of the various influences on local priorities is provided in Chapters 3 and 4.

<sup>12</sup> These issues are outside the scope of this audit. However, several funding needs assessments have previously been undertaken by state agencies and other groups. Examples include: The State of Washington Local Government Infrastructure Study, published in 1999 by the Public Works Board; and the Outdoor Recreation and Wildlife Habitat Needs Assessment, published by the Washington Wildlife and Recreation Coalition in the late 1980s. JLARC has not examined the accuracy of these assessments.

<sup>13</sup> Note that the applications received and projects funded data that is portrayed in this report is as of June 30, 2000. Many programs continue to receive applications and fund projects through the second year of this biennium.

**Exhibit 1.5**  
**Applications Received and Projects Funded, All Programs, FY 1996-2000**

Agency/Program	Applications Received		Projects Funded		Percent of Projects Funded	
	Number	Value	Number	Value	Number	Value
Conservation Commission - Conservation Reserve Enhancement Program **	11	\$150,552	11	\$150,552	100.0%	100.0%
Conservation Commission - Dairy Nutrient Management Grants Program **	63	\$5,093,000	63	\$5,093,000	100.0%	100.0%
Conservation Commission - Water Quality Grants Program **	239	\$19,846,251	163	\$14,086,526	68.2%	71.0%
Ecology - Coordinated Prevention Grants **	309	\$48,278,445	309	\$48,278,445	100.0%	100.0%
Ecology - Public Participation Grants Program	163	\$4,866,328	94	\$2,102,498	57.7%	43.2%
Ecology - Remedial Action Grants Program *	219	\$79,974,196	207	\$56,027,622	94.5%	70.1%
Ecology - Water Quality Financial Assistance Program	991	\$607,918,568	440	\$374,831,000	44.4%	61.7%
DNR - Aquatic Lands Enhancement Grants Program	109	\$37,407,051	50	\$13,449,889	45.9%	36.0%
IAC - Washington Wildlife and Recreation Program (habitat portion)	120	\$115,939,126	59	\$68,360,001	49.2%	59.0%
IAC/SRFB - Salmon Recovery Grants Program	615	\$89,601,202	362	\$51,781,767	58.9%	57.8%
PWB/CTED - Public Works Trust Fund Program (wastewater, stormwater, solid waste portions)	195	\$409,214,026	100	\$200,877,263	51.3%	49.1%
State Parks - Boat Pumpout Grants Program *	74	\$1,696,581	74	\$1,696,581	100.0%	100.0%
<b>GRAND TOTAL</b>	<b>3,108</b>	<b>\$1,419,985,326</b>	<b>1,932</b>	<b>\$836,735,144</b>	<b>62.2%</b>	<b>58.9%</b>

\* To date, these programs have allocated funding on a "ready-to-proceed" basis.

\*\* These programs allocate all or a portion of their funding on a formula basis.

Source: Agency information reported to JLARC.

## WIDE RANGE IN FUNDING ALLOCATIONS BY COUNTY

Program funding distributions over the past five years vary considerably across counties. For example, between fiscal years 1996 and 2000, the programs provided over \$158 million for projects within King County, and less than \$1 million for projects within Wahkiakum County. Exhibit 1.6 on page 8 maps the total amount of funding allocated by the programs to environmental quality projects within each of the state's 39 counties between fiscal years 1996 through 2000. Exhibit 1.7 on page 9 provides the detailed information used to construct the map.

We looked for measures *at the system level* (i.e., across programs) that might help explain these variations, or that might be used to gauge the environmental quality impact of the expenditures.

**We found no comprehensive environmental indices that could be used for these purposes.**

However, our analysis revealed a significant pattern in the data: **overall funding awards are highly correlated to county population**.<sup>14</sup> That is, more funding is consistently allocated to projects in counties with higher populations. Only one of the programs—the Coordinated Prevention Grants Program within the Department of Ecology—utilizes a formula allocation methodology that factors in county population. Funding allocations made by this program alone (6 percent of total allocations) are not sufficient to drive the strong population-to-funding

<sup>14</sup> The correlation of the z-scores for county population and the amount of funding allocated to projects within the county resulted in an r-square of 0.89.

correlation that we found. One might infer that greater environmental degradation is associated with higher populations, and that funding is following degradation, though we have no means to test this inference.

We also found another pattern, likely related to the first: funding awards are strongly correlated to applications.<sup>15</sup> That is, more funding is consistently allocated to projects in counties where more money is applied for. One might infer that higher demand for projects (as represented by applications) increases the opportunities and/or pressure (environmental or otherwise) to award funding. Again, information to directly test this inference is not available.

Though several programs explicitly distribute funding using geographic (land-based) factors,<sup>16</sup> we found no correlation between county land area and program funding allocations.<sup>17</sup> **In summary, across programs, funding allocations appear to be following people, not land.**

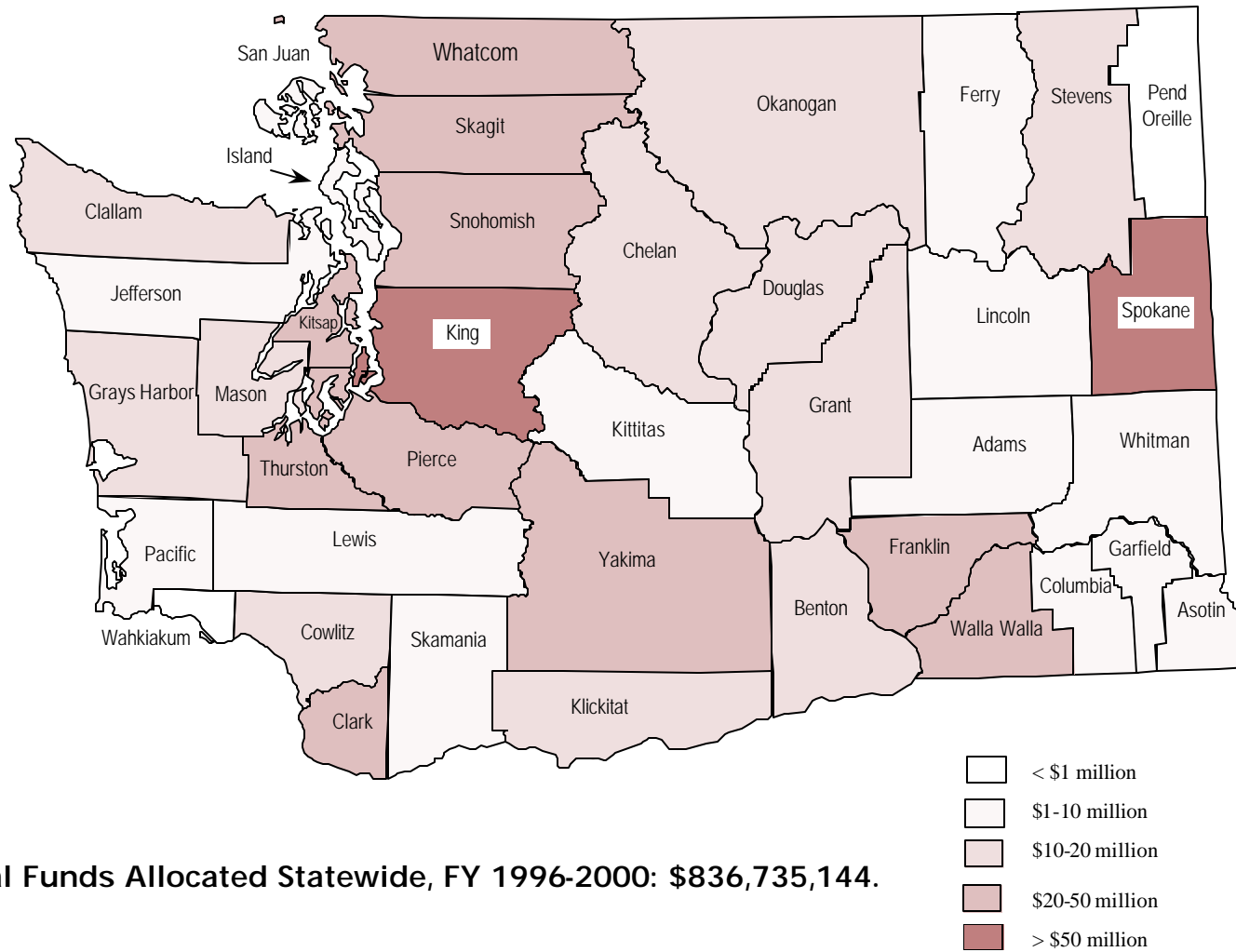
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<sup>15</sup> The correlation of the z-scores for the amount applied for and amount funded by county resulted in an r-square of 0.93.

<sup>16</sup> For example, three of the four formula-based programs employ geographic factors in determining funding distributions (in two cases a baseline funding amount per jurisdiction; in the other case an allocation per salmon stream mile). Two programs—the Salmon Recovery Grants Program and the Public Works Trust Fund Program—are required to consider geographic equity when distributing funds.

<sup>17</sup> The correlation of the z-scores for county land area and amount funded resulted in an r-square of 0.02.

**Exhibit 1.6**  
**Range of Program Funding Allocation by County, FY 1996-2000**



**Exhibit 1.7**  
**Environmental Quality Project Funding Applications**  
**And Allocations by County, FY 1996-2000**

County	Number of Applications Received	Total Funds Requested	Number of Projects Funded	Total Funds Allocated	Estimated County Population	Funding per Person	County Area (square miles)	Funding per Square Mile
Adams	29	\$10,348,114	16	\$4,867,556	15,800	\$308.07	1925	\$2,529
Asotin	33	\$5,345,006	29	\$4,396,504	20,000	\$219.83	636	\$6,913
Benton	49	\$33,868,415	23	\$12,746,776	140,700	\$90.60	1703	\$7,485
Chelan	51	\$25,847,269	36	\$16,906,590	62,600	\$270.07	2922	\$5,786
Clallam	110	\$28,257,635	74	\$15,389,139	66,700	\$230.72	1745	\$8,819
Clark	87	\$71,250,411	52	\$41,172,582	345,000	\$119.34	628	\$65,561
Columbia	28	\$5,166,874	19	\$3,815,600	4,100	\$930.63	869	\$4,391
Cowlitz	53	\$39,236,910	37	\$19,403,181	94,900	\$204.46	1139	\$17,035
Douglas	28	\$26,028,697	22	\$19,676,175	32,200	\$611.06	1821	\$10,805
Ferry	11	\$1,163,329	9	\$1,400,079	7,300	\$191.79	2204	\$635
Franklin	28	\$21,861,592	19	\$20,636,660	45,900	\$449.60	1242	\$16,616
Garfield	27	\$4,355,469	21	\$1,211,937	2,300	\$526.93	710	\$1,707
Grant	55	\$36,827,450	41	\$16,211,451	71,500	\$226.73	2676	\$6,058
Grays Harbor	58	\$38,531,780	33	\$12,734,518	67,100	\$189.78	1917	\$6,643
Island	45	\$9,396,519	30	\$4,120,963	74,200	\$55.54	209	\$19,718
Jefferson	70	\$15,004,407	41	\$6,878,494	26,800	\$256.66	1809	\$3,802
King	406	\$235,454,346	226	\$158,494,372	1,685,600	\$94.03	2126	\$74,551
Kitsap	137	\$100,478,833	76	\$34,600,305	230,200	\$150.31	396	\$87,375
Kittitas	30	\$5,624,156	25	\$6,072,308	32,500	\$186.84	2297	\$2,644
Klickitat	57	\$29,170,619	43	\$10,358,804	19,600	\$528.51	1872	\$5,534
Lewis	72	\$33,277,524	39	\$9,408,111	69,000	\$136.35	2408	\$3,907
Lincoln	34	\$10,627,530	24	\$4,315,848	10,000	\$431.58	2311	\$1,868
Mason	92	\$28,361,722	59	\$14,369,197	49,300	\$291.46	961	\$14,952
Okanogan	72	\$21,998,697	55	\$15,751,736	38,500	\$409.14	5268	\$2,990
Pacific	44	\$8,909,433	25	\$3,595,476	21,300	\$168.80	975	\$3,688
Pend Oreille	20	\$1,384,409	11	\$854,900	11,200	\$76.33	1400	\$611
Pierce	147	\$91,319,921	104	\$48,052,728	706,000	\$68.06	1676	\$28,671
San Juan	23	\$3,343,850	20	\$2,664,958	12,700	\$209.84	175	\$15,228
Skagit	131	\$56,670,655	73	\$35,977,386	102,300	\$351.69	1735	\$20,736
Skamania	27	\$9,382,794	19	\$6,682,937	9,900	\$675.04	1656	\$4,036
Snohomish	175	\$75,024,884	102	\$41,373,763	593,500	\$69.71	2090	\$19,796
Spokane	99	\$82,432,061	66	\$56,674,289	415,000	\$136.56	1764	\$32,128
Stevens	41	\$19,006,610	26	\$13,871,933	38,500	\$360.31	2478	\$5,598
Thurston	129	\$35,619,442	77	\$27,202,317	204,300	\$133.15	727	\$37,417
Wahkiakum	20	\$1,371,821	12	\$789,648	3,900	\$202.47	264	\$2,991
Walla Walla	34	\$43,160,198	22	\$35,941,260	54,200	\$663.12	1270	\$28,300
Whatcom	106	\$41,705,040	68	\$25,378,208	163,500	\$155.22	2120	\$11,971
Whitman	67	\$6,502,689	36	\$3,604,776	41,300	\$87.28	2159	\$1,670
Yakima	71	\$30,054,827	50	\$22,329,441	214,000	\$104.34	4296	\$5,198
Multi-county	221	\$55,904,892	115	\$33,746,444	na	na	na	na
Statewide	21	\$15,469,293	57	\$23,055,794	na	na	na	na
Unidentified	70	\$5,239,203	0	\$0	na	na	na	na
<b>TOTAL</b>	<b>3,108</b>	<b>\$1,419,985,326</b>	<b>1,932</b>	<b>\$836,735,144</b>	<b>5,803,400</b>	<b>\$144.18</b>	<b>66,579</b>	<b>\$12,568</b>

Source: Agency information reported to JLARC.





## CHAPTER II: DISTRIBUTING VERSUS INVESTING

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*Environmental investments are intended to produce a return of quality improvements in water, land, or species resources. Without measurable returns, it is impossible to determine if investments have been effective.*

*Measuring environmental returns can be difficult, particularly within large and complex environmental systems. It is often not clear how individual projects will contribute to long-term solutions over time. Many of the systemic environmental issues we are now facing in Washington, such as salmon recovery and water quality planning for entire river basins, pose significant new challenges to making investments and measuring the returns from those investments.*

*Solid data is missing for monitoring environmental quality, learning from past investments, and coordinating investments across programs. While some steps have been taken towards developing meaningful environmental performance measures and coordinating projects, these efforts are only in their infancy.*

*At this time, the one output that is most clearly and consistently documented across programs is that the money provided to the programs has been distributed. **Thus, the funding programs under this audit can be characterized as being primarily distributional in nature.***

Over the past five years, the audited programs distributed over 1,900 separate grants and loans to local governments and other entities for environmental quality projects and activities around the state. In designing this audit, JLARC conducted a series of interviews with legislators and legislative staff to identify audit priorities.<sup>18</sup> These interviews indicated a strong interest in examining the **investment performance of programs**—their effectiveness in financing projects with high environmental quality returns. This core audit theme is consistent with the underlying purpose of programs and expenditures in the capital budget<sup>19</sup> and is conveyed in the title of this report. This chapter evaluates issues surrounding the availability of information to evaluate the performance of these program investments.

### IMPORTANCE OF UNDERSTANDING INVESTMENT RESULTS

The results of program activities and investments are classified into three categories:

**Process Outputs** – Measurements of basic process and workload activities involved in or resulting from program administration. Examples include: number of applications processed,

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<sup>18</sup> We interviewed the chairs, co-chairs, and ranking minority members of the House Capital Budget Committee, the Senate Ways and Means Capital Budget Subcommittee, as well as the four House and Senate standing committees with primary jurisdiction over natural resource and environmental issues. During the course of the study, we also convened and met with an advisory group of legislative members and staff from JLARC and the standing committees.

<sup>19</sup> The capital budget is the budgetary instrument generally used to fund the state's long-term investments outside of the transportation arena, as well as projects and activities that span beyond the two-year fiscal biennium, and non-transportation projects that rely on bonded debt-financing.

number of projects funded, number of contracts signed, amounts of grants/loans awarded, and descriptions of projects funded.

**Project/Program Outputs** – Measurements of the implementation of “on-the-ground” activities that represent the functional core of projects. Examples include: acres of land purchased, miles of stream buffered, number of dairy plans completed, number of boat pumpouts installed, number of wastewater treatment facilities brought into compliance with standards, gallons of motor oil recycled, and amount of sewage removed.

**Project/Program Outcomes** – Measurements of the overall impact and effectiveness of the project/program—that is, whether and to what extent the project/program accomplished its overall mission and goals as expressed in terms of environmental quality. Examples include: cleanliness of a previously contaminated site, percent of critical habitat needed by a species preserved or restored, percent of solid waste reduced or diverted from landfills, measurable improvements in water quality, and demonstrated recovery of endangered species.

This audit draws a clear distinction with regard to the type of results expected to be measured and reported from investments—**funding allocations are not investments unless clear output and outcome results can be documented**. This concept is clearly articulated in the following excerpt from the Department of Ecology’s 2000-01 Coordinated Prevention Grant Guidelines.<sup>20</sup>

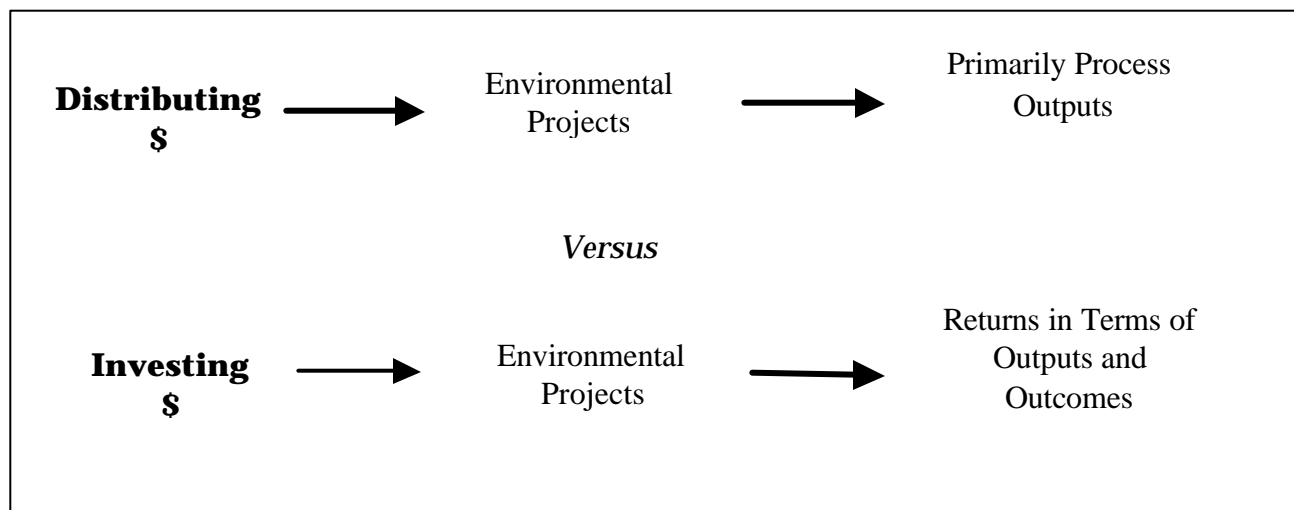
*“We make grants . . . to receive a return in improved air, land and water, which we would not get without that investment of money, time and effort. In some cases, the return is more of a protection from further degradation than an improvement, but it is still a return. Your progress report is the documentation of that return. It also helps you to evaluate the success of the project when it’s finished.”*

Exhibit 2.1 on the following page depicts this distinction in another way. Programs that are primarily distributional in nature are likely to collect primarily process outputs. Programs that are designed to make investments are likely to collect information on outputs and outcomes that clearly document the **return on investment**.

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<sup>20</sup> Coordinated Prevention Grant Guidelines 2000-1, Solid Waste and Financial Assistance Program, Department of Ecology, Publication #99-507, July 1999.

**Exhibit 2.1**  
**Distributing *versus* Investing**



Source: JLARC.

## CURRENTLY, MOST PROGRAMS ARE ABLE TO REPORT ONLY PROCESS RESULTS FROM INVESTMENTS

The vast majority of information collected and published by programs regarding their investments focuses on process results, such as number of applications processed, number of projects funded, and descriptions of projects. A few agencies collect and publish output results, such as number of habitat acres purchased, number of stream miles buffered, and amount of sewage removed from state waters.<sup>21</sup> However, as a whole, little information is available regarding project or program outcomes—that is, information that can better address whether investments are effective in accomplishing their fundamental environmental quality goals.<sup>22</sup> **Without strong and comprehensive output and outcome measures, positive environmental results can only be presumed and not proven.**

## CHALLENGES OF REPORTING OUTCOME-BASED ENVIRONMENTAL PERFORMANCE DATA

The development of meaningful outcome-based performance information has been difficult for many state programs. For environmental programs in general, including those under this audit, developing outcome measures is made especially difficult by:

<sup>21</sup> These output results are available from the Interagency Committee for Outdoor Recreation/Salmon Recovery Funding Board, Conservation Commission, and State Parks and Recreation Commission, respectively.

<sup>22</sup> Though some programs have developed outcome measures, the relationship between the measures and program performance is not always clear. For example, the Department of Ecology uses the statewide recycling rate as an outcome measure for its Coordinated Prevention Grants Program. However, the agency indicates that fluctuations in the state recycling rate (39 percent in 1995-97, 34 percent in 1997-99, and henceforth a slight “rebound”) are due to market forces rather than the performance of local recycling efforts funded by the program.

- A lack of clarity about who, if anyone, is responsible for tracking the performance of investments (i.e., the program providing the funding, the funding recipient, or an independent entity);
- An historic lack of agreement on the type of performance data that should be collected;
- Large variations in underlying environmental conditions across the state;
- A lack of coordinated and robust baseline condition assessment and monitoring systems that can be used to measure investment performance, particularly in the salmon and water quality arenas (the two issues receiving the greatest amount of program funding);<sup>23</sup>
- An historic lack of collaboration across state and local programs and agencies to develop shared and systematic strategies for environmental quality information collection and management;<sup>24</sup> and
- Inherent difficulties and complexities related to understanding cause and effect, predicting future conditions, measuring prevention, and tracking long-term results for investments in **systemic environmental issues**.

## SYSTEMIC ENVIRONMENTAL ISSUES

Since the mid-1980s, state and federal environmental quality goals have gradually shifted towards addressing broad scale **systemic issues**. This expanded focus is vividly demonstrated in the arena of salmon recovery under the federal Endangered Species Act and water quality planning for entire river basins under the federal Clean Water Act. Systemic issues often span large geographic regions where environmental “cause and effect” may not be known, individual project investments contribute only partially to solutions, and outcomes will not be known for long periods of time. From an investment perspective, systemic issues generally carry higher risk (less certainty that the investment will be effective).

Not all contemporary environmental quality issues are systemic in nature, however. Some issues occur at small scales (e.g., individual sites), or have time-tested solutions that may be fairly straightforward to implement. We refer to these as **traditional issues**. Investments in traditional issues tend to have lower risk. Their results are usually easier to measure (in most cases desired outcomes are produced soon after completion of the project). Examples of traditional issues include cleaning a contaminated site or upgrading a wastewater treatment plant to comply with water quality standards or permit requirements.

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<sup>23</sup> According to the Department of Ecology, “current water quality monitoring efforts in Washington are inadequate, poorly coordinated or in some locations non-existent. Monitoring networks supported by Ecology and other agencies are too small, too limited in scope, or too short in duration to provide a reliable and comprehensive evaluation of water quality or water quality trends.” According to the Salmon Recovery Funding Board, “No statewide strategy exists for evaluating the results of salmon recovery activities. Without a well-structured, coordinated monitoring strategy there is no way to evaluate the success of these activities and the need to modify them or undergo additional efforts (adaptive management).” (2001-03 Agency Budget Packages)

<sup>24</sup> The Governor’s Joint Natural Resources Cabinet has recently sponsored a new staff position within the Governor’s Salmon Recovery Office to begin coordinating information management across agencies. The Salmon and Watershed Information Manager (SWIM) position represents a first step toward addressing the coordination of environmental quality information systems across programs.

## Nine Programs Target Systemic Issues

Each program under this performance audit can be classified as systemic or traditional based on the underlying environmental issues it addresses. Based on our analysis of the major issues addressed by each program (described earlier in Exhibit 1.1), we conclude that seven out of the 12 programs are targeted at issues that are systemic in nature, three address issues that are fundamentally traditional, and two address issues that have both systemic and traditional components.

### Exhibit 2.2

#### JLARC Classification of Grant and Loan Programs

Agency	Program	Systemic	Traditional
Conservation Commission	Conservation Reserve Enhancement Program	X	
	Dairy Waste Management Grants Program		X
	Water Quality Grants Program	X	
Department of Ecology	Local Toxics Coordinated Prevention Grants Program	X	
	Local Toxics Public Participation Grants Program	X	X
	Local Toxics Remedial Action Grants Program		X
	Water Quality Financial Assistance Program	X	X
Department of Natural Resources	Aquatic Lands Enhancement Grants Program	X	
Interagency Committee for Outdoor Recreation / Salmon Recovery Funding Board	Washington Wildlife and Recreation Program (habitat portion)	X	
	Salmon Recovery Grants Program	X	
Public Works Board (within CTED)	Public Works Trust Fund Program (wastewater, stormwater, and solid waste portions)		X
State Parks and Recreation Commission	Statewide Boat Pumpout Grants Program	X	

Source: JLARC.

This strong focus on systemic issues poses new challenges not only to the grant and loan programs, but also to the larger environmental quality system. **Efficient resolution of systemic issues requires a coordinated and integrated response by many entities rather than a piecemeal collection of projects and activities that target individual sites or sources of environmental degradation.** Three approaches that are being developed to address the

challenges of coordination and integration, and have implications for the grant and loan programs include: Adaptive Management, the Uniform Environmental Project Reporting System, and the Salmon Recovery Scorecard.

## Adaptive Management

Resolution of systemic issues depends on multiple projects and activities that cross program and jurisdictional boundaries. To maximize returns on investments over time, it is useful to learn from past experiences—both successes and failures—in order to be able to make appropriate changes in future project strategies and designs. This “learning as you go” approach is called **adaptive management**, and has been adopted as part of the state’s salmon recovery strategy.<sup>25</sup>

To be successful, adaptive management requires accurate and comprehensive information to understand investment results at the larger system level. To the extent that programs can collect, evaluate, and share meaningful output and outcome results from projects, a potential “secondary benefit” of the state’s environmental investments (contribution of information for adaptive management) can be realized.

## Uniform Environmental Project Reporting System

During the 1999 Session, the Legislature enacted Substitute House Bill 1204 (Chapter 225, Laws of 1999) to improve data coordination among state agencies funding environmental projects. The legislation directs the Department of Transportation (DOT), in conjunction with an advisory committee of state agencies,<sup>26</sup> to develop a central environmental project reporting database—the Uniform Environmental Project Reporting System (UEPRS)—to “better address the needs of the environment on a local and regional basis, and to better address statewide priorities to achieve the most beneficial and cost-effective results.” The database is being phased in, beginning in FY 2001 with agencies that receive appropriations for environmental projects in the capital budget.

A key purpose of the database is to map the locations of environmental projects. Mapping is envisioned as an important tool for planning, coordinating, and monitoring projects, particularly for projects that are part of a larger response to systemic environmental issues. To accomplish these goals, UEPRS will be internet-based and use geographic information system (GIS) technology to map projects.

Over the past summer, we worked with DOT to determine the extent to which the audited programs (as well as the 13 other environmental grant programs funded in the operating and transportation budgets) maintain and could report detailed project location and descriptive information for coordination purposes. Using a prototype of UEPRS, we collected information from programs about funded and unfunded projects in three case study regions: the Methow River Watershed, the Snohomish River Watershed, and two adjacent watersheds along the Lower Columbia River.<sup>27</sup>

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<sup>25</sup> RCW 77.85.010 defines adaptive management as “reliance on scientific methods to test the results of actions taken so that the management and related policy can be changed promptly and appropriately.”

<sup>26</sup> The committee includes representatives from the Interagency Committee for Outdoor Recreation, the Conservation Commission, the Department of Community, Trade, and Economic Development, the Department of Fish and Wildlife, the Department of Natural Resources, the Parks and Recreation Commission, the Department of Ecology, and the Office of Financial Management.

<sup>27</sup> These case study regions were selected to provide a measure of geographic and organizational diversity for our analysis. A map outlining the location of the case study regions is provided in Appendix 9.

The results of this work reflect some of the challenges that lie ahead in coordinating and “adaptively managing” environmental projects across programs to address systemic issues. We found that agencies’ abilities to report sufficient information to map projects and describe investment results was mixed. On average, **46 percent of all funded projects reported for the case study regions were mappable.**<sup>28</sup> Most of the reported project results were process related. Few described investment outputs or outcomes.<sup>29</sup>

Our work also revealed a significant barrier to coordination within the current UEPRS framework. UEPRS is currently designed to collect project information *after* the close of each fiscal year—that is, *after* funding decisions have already been made by programs. To be fully effective, strategic coordination of investments should take place *before* funding decisions are made. To serve this need, UEPRS needs to be expanded to collect information about, and facilitate coordination of, *applications* for funding assistance.

## The Salmon Recovery Scorecard

Over the past year, the Governor’s Salmon Recovery Office, working in conjunction with the Joint Natural Resources Cabinet,<sup>30</sup> has developed a framework for measuring progress towards resolving the systemic issue of salmon listings under the Endangered Species Act. The framework, called the **salmon recovery scorecard**, is a comprehensive collection of performance goals expressed in terms of desired salmon recovery outcomes, as well as indicators that will be used to assess progress towards achieving those outcomes.

The scorecard is referenced to an extensive implementation plan that lists over 100 state agency actions expected to contribute to salmon recovery.<sup>31</sup> The scorecard is a first step towards developing meaningful outcome-based performance measures for salmon recovery at the system level. It establishes both output and outcome measures that can be used to assess the state’s progress towards salmon recovery.

Many of the output and outcome measures in the scorecard are useful *starting points* for the development of *program-specific* investment performance measures. Agencies need to establish logical connections between the salmon scorecard measures and project and program investment performance. In other words, additional work must be done by the grant and loan programs, in conjunction with their funding recipients, to translate this scorecard into measures that are meaningful and relevant to program management, evaluation of investment results, and adaptive management.

## CONCLUSION

There are significant gaps in the availability of comprehensive information on output- and outcome-based program investment results. In the absence of such information, it is impossible to determine if program investments have been effective. At this time, the investment “result”

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<sup>28</sup> Appendix 10 provides a summary of the information that was reported by each program.

<sup>29</sup> It should be noted that results would not be expected for some of the more recently funded projects that have not yet been completed.

<sup>30</sup> The cabinet is composed of the directors of 11 agencies that manage the state’s major environmental and natural resources programs: Department of Ecology; Department of Fish and Wildlife; Department of Agriculture; Department of Community, Trade, and Economic Development; Puget Sound Water Quality Action Team; State Conservation Commission; Department of Transportation; Interagency Committee for Outdoor Recreation; State Parks and Recreation Commission; Department of Health; and the Northwest Power Planning Council.

<sup>31</sup> State Agencies Action Plan, May 2000. (<http://www.governor.wa.gov/esa/action/action.htm>)

that is most clearly and consistently documented across programs is that money has been distributed and spent.

Systemic environmental issues pose significant challenges to making environmental investments and measuring the results of those investments. Information that might be used for both adaptive management and coordination of responses to systemic issues is, at this juncture, critically lacking across programs. While some steps have been taken towards developing performance measures (the Salmon Recovery Scorecard) and coordinating projects across programs (the Uniform Environmental Projects Reporting System), these efforts are only in their infancy and warrant further development.



# CHAPTER III: INVESTMENT PRACTICES

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*Based on our research of environmental funding programs in Washington and other states, we developed a **model** for evaluating program investment practices. The model's **16 key investment practices** represent a new program benchmark – a framework for deliberate environmental investment decision-making.*

*In comparing program structures and operations to the model, we found that **many programs employ practices that allow them to efficiently distribute funding in the face of high demand, but do not consistently employ practices to ensure that investments will yield returns in the form of cost-effective, long-term environmental benefits.***

*Adoption of some of the missing key investment practices from the model could shift the focus of program activities away from distribution and towards investment results.*

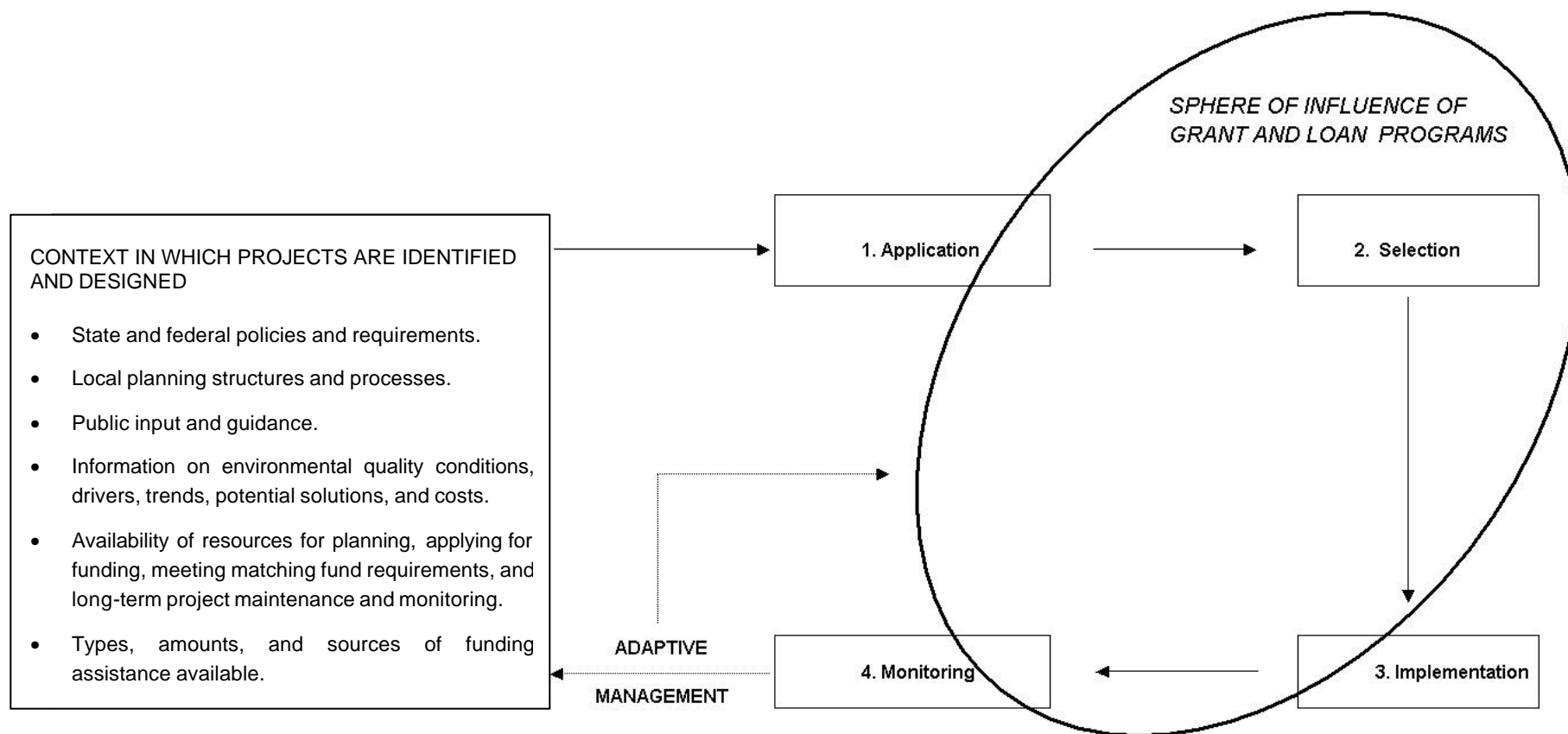
A significant lack of output and outcome information across programs makes a direct evaluation of program investment performance difficult or impossible. We constructed a model to evaluate program investment performance indirectly through an analysis of program investment practices. The model creates a new benchmark for programs under this audit - a framework for more deliberate environmental investment decision-making. This chapter describes the model and the results of our analysis.

## PROGRAM ROLES IN THE INVESTMENT PROCESS

The model displayed in Exhibit 3.1 on the following page divides the investment process into four distinct phases:

1. The **Application** phase includes all program activities that result in applications for funding assistance being submitted to the programs. Activities include developing application forms and schedules, and providing outreach and technical assistance to potential applicants.
2. The **Selection** phase involves the prioritization and selection of projects for funding by the programs.
3. The **Implementation** phase involves disbursing funds to project sponsors, along with oversight during implementation.
4. The **Monitoring** phase involves monitoring project results and outcomes.

**Exhibit 3.1**  
**Investment Process and Program Roles**



Source: JLARC.

The box on the left side of the model (previous page) illustrates the context in which environmental projects and activities are identified and designed before funding applications are submitted to state programs. Some of the many factors that might influence the identification and design of projects are listed.

**Feedback Loop:** Adaptive management is incorporated into the model to represent the learning that is intended to take place as a result of monitoring and evaluating the results of investments. Adaptive management is intended to “close the loop” between the investment process and the factors that influence the identification, design, and selection of projects. It can also be used to guide changes in the management and structure of the investment process itself. **Adaptive management is critically dependent on the extent and quality of project results data**, as well as the existence of a framework to assess that data against baseline conditions and apply findings to program policies and management.

**Sphere of Influence:** An important aspect of the model is the recognition that, though the grant and loan programs play an important role in the investment process, their “sphere of influence” is limited. For example, programs only partially influence the number and quality of applications they receive (through their application and eligibility requirements, and the technical assistance they provide). Likewise, programs exercise only tangential responsibilities for project implementation and monitoring. (Local governments implement the projects and perform most initial monitoring.) Conversely, project selection is substantially controlled by the programs. The amount of influence the programs have in each phase of the investment process is represented by their relative coverage within the “sphere of influence” ellipse in the model.

## EVALUATION OF INVESTMENT PRACTICES

We used the model as a foundation for our analysis of program investment practices. Based on our research of environmental funding programs in Washington and other states,<sup>32</sup> we identified 16 distinct practices within programs’ sphere of influence that would, if present, foster sound environmental investments or contribute to adaptive management. We then evaluated each program against the identified practices, documenting whether the practice was present, partially present, or not present within the program, and, if present, the form it took.<sup>33</sup> Finally, we tallied the results of the analysis for individual programs as well as across programs. These tallies were translated into **investment scores**.<sup>34</sup>

The 16 practices are summarized in Exhibit 3.2 on pages 23 and 24. Exhibit 3.3 on page 25 provides the tallies and scores for each program, as well as average scores across programs. Appendix 12 describes in detail the implementation status of all 16 practices for each program.

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<sup>32</sup> Information about investment practices in other states is included in Appendix 11.

<sup>33</sup> The analysis was limited to noting the presence of practices. Relative effectiveness of implementation was not scored.

<sup>34</sup> For scoring purposes, each practice was weighted equally. Practices that were present received a full score. Practices that were partially present received a “half” score. Practices that were not present received a score of zero. A sensitivity analysis revealed that the absence of weighting of individual practices did not substantially shift relative ranking of programs.

## FINDINGS

As a whole, programs scored well<sup>35</sup> on practices related to:

- Providing client outreach and technical assistance (Practices #1 and #2);
- Prioritizing and selecting projects in a clear, objective, and open manner (Practice #4);
- Contracting processes and contract enforcement (Practice #10); and
- Documenting workload (Practice #12).

Programs scored less well, though still strong,<sup>36</sup> in practices related to:

- Requiring formal analysis of the need and rationale for projects (Practice #3);
- Evaluating expected environmental quality benefits of projects (Practice #5); and
- Consulting with external advisory groups (Practice #14).

Programs performed poorly<sup>37</sup> on these key investment, monitoring, and adaptive management practices:

- Evaluating the likelihood that project benefits will be produced (Practice #6);
- Comparing the relative benefits to the costs of projects (Practice #7);
- Evaluating projects' readiness to proceed (Practice #8);
- Establishing minimum threshold scores for projects to be funded (Practice #9);
- Collecting output and outcome data from project sponsors (Practice #11);
- Compiling and publishing meaningful performance measures (Practice #13); and
- Coordinating and "adaptively managing" investments in systemic issues (Practices #15 and #16).

## CONCLUSION

As a whole, programs are fundamentally oriented towards *distributing* public dollars toward areas of established environmental need rather than *investing* those dollars. Most programs employ practices that allow them to efficiently distribute funding in the face of high demand. However, high demand and the resulting competition for funding acts as only a partial surrogate for systems to make strategic investments and learn from past investments.

Adoption of some of the missing key investment practices identified in our analysis could increase both confidence that program investments will be cost-effective, and the extent and quality of results information that might be used to foster future returns through adaptive management.

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<sup>35</sup> Average score greater than 90 percent.

<sup>36</sup> Average score between 75 percent and 90 percent.

<sup>37</sup> Average score less than 75 percent (most were, in fact, below 60 percent).

### Exhibit 3.2

#### Key Investment Practices

Investment Process Stage and Practice Number	Investment Practice	Explanation / Rationale
<b>APPLICATION</b>		
1	Program employs <b>advertisement and outreach</b> mechanisms that broadly disseminate information about program funding and availability.	Broad dissemination ensures that incomplete knowledge about the program does not pose an access barrier to potentially good projects/investments.
2	<b>Technical assistance</b> is made available to assist potential applicants in accessing the program and developing high-quality applications.	Ensures that technical issues and the application process don't become barriers.
3	To be eligible to receive funds, applicant is required to document the existence of a <b>formal analysis demonstrating the need and rationale for the project</b> . For projects addressing <i>systemic</i> issues, this should be in the form of a long-term strategic plan that employs scientifically sound assessment tools such as limiting factors analysis. For projects addressing <i>traditional issues</i> , this should be in the form of an alternatives analysis with a rationale for selecting the proposed alternative.	Documents that consideration has been given to project design and scope. For <i>systemic issues</i> , a strategic plan ensures knowledge of the underlying system and key factors that contribute to the issue at hand. Without a strategic plan, uncertainty regarding project outcomes may be too high to warrant investments. For traditional issues, an alternatives analysis ensures that applicants have considered alternatives before proposing specific solutions. (NOTES: 1) "Initial" strategic plans that focus on the need to collect baseline information may be accepted as a basis for investments in research and assessment activities. 2) Strategic plans may be prepared by the applicant or another entity. 3) An alternatives analysis may be in the form of cost-benefit analysis, cost-effectiveness analysis, EIS, comprehensive plan, etc.)
<b>SELECTION</b>		
4	Program's prioritization and selection process is <b>documented, clear, objective, and open</b> .	Ensures objectivity and clarity about why investment decisions were made.
5	Program's prioritization and selection criteria evaluate the <b>environmental quality benefits</b> that are expected to be produced by projects. For systemic issues, short-term and long-term direct benefits should be evaluated, as well as any ancillary benefits that will result from implementing the project.	Environmental quality benefits are the core focus of program investments. In addition to direct benefits, ancillary benefits such as producing information that can be used in adaptive management strategies, establishing first steps in implementing strategic plans, or ensuring future options to recover investments (e.g. ability to sell land that is not producing intended results), should also be considered.
6	Program's prioritization and selection criteria evaluate the <b>likelihood that the benefits will be produced</b> based on both applicant's ability and track record <i>and</i> the design of the project.	Provides information to assess the risk or uncertainty surrounding realization of investment benefits.
7	Program's prioritization and selection criteria evaluate projects' <b>costs relative to the benefits</b> expected to be received.	Provides information about the investment's value relative to the amount of money invested.

**Exhibit 3.2**  
**Key Investment Practices (continued)**

Investment Process Stage and Practice Number	Investment Practice	Explanation / Rationale
8	Program's prioritization and selection criteria evaluate projects' <b>readiness to proceed</b> .	For otherwise equal projects, the one that can be implemented sooner is preferable as it will produce environmental benefits sooner. Funding projects that are not ready to proceed may tie up funds that could be beneficially applied elsewhere. In some cases, beginning projects as soon as possible may forestall environmental damage.
9	Program employs a <b>minimum threshold score</b> for projects to receive funding.	Returns on investments are likely to be uncertain for projects scoring below certain thresholds, and programs should have the option of not investing in these projects. (NOTE: For programs where applications significantly exceed available funding, competition may create a defacto funding threshold based on relative rankings. However, such funding thresholds are not identical to investment thresholds, which should be defined as the minimum score that is likely to produce desired returns from an investment).
<b>IMPLEMENTATION</b>		
10	Project implementation and expenditure <b>plan and schedule</b> specified in contract and <b>enforced</b> .	Programs should ensure that public receives the anticipated benefits according to planned schedule. Ensures accountability for investments.
<b>MONITORING</b>		
11	Project <b>output and outcome data</b> is collected from project sponsors (project-level results). Outcome data incorporates pre-project implementation baseline data.	Analyzing investment performance requires understanding both process (what was done) and results (the impact of what was done). Results are most meaningful when compared to baseline environmental quality conditions. For systemic projects, results should also be referenced against the <b>strategic plan</b> .
<b>ADAPTIVE MANAGEMENT</b>		
12	Program compiles and publishes comprehensive <b>process and workload measures</b> .	Enables internal and external review of program performance related to workload.
13	Program compiles and publishes <b>output and outcome measures</b> that directly relate to the program's <b>investments</b> (program level results).	Enables internal and external review of program performance related to investment results and effectiveness.
14	Program regularly consults with an <b>external advisory group</b> regarding program practices and performance.	Enables objective evaluation of program practices and results. Facilitates program responsiveness to <b>changing conditions</b> .
<b>ADDITIONAL FEATURES FOR PROGRAMS ADDRESSING SYSTEMIC ISSUES</b>		
15	For systemic issues, program <b>coordinates its project investments at the funding stage</b> with other related state, federal, local, tribal, and private investments at the appropriate geographic scale.	Resolution of systemic issues depends on a collective response from many programs, projects, and activities. Coordination may enhance collective benefits from multiple projects and investments.
16	Program participates in and supports a <b>formal network</b> and/or process to collect, share, review and assess information about individual and collective program outputs, outcomes, and performance in the context of systemic environmental quality issues.	

Source: IJARC.

### Exhibit 3.3

#### Investment Analysis Tallies and Scores<sup>38</sup>

Process Stage and Practice Number	Conservation Comm - CREP	Conservation Comm - Dairy	Conservation Comm - Water	DNR - ALEA	Ecology - CPG	Ecology - PPG	Ecology - RAG	Ecology - Water	IAC - WWRP	Public Works Board - PWTF	SRFB - Salmon Recovery	State Parks - Boat Pumpouts
<b>Application</b>												
1	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
2	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
3*	P	Y	Y	N	Y	P	Y	Y	Y	Y	Y	Y
<b>Selection</b>												
4	Y	Y	Y	Y	Y	Y	Y	Y	Y	P	P	Y
5*	P	P	P	Y	P	Y	Y	Y	Y	Y	Y	Y
6*	N	P	P	P	P	Y	P	Y	P	P	Y	P
7*	P	P	P	N	P	P	Y	Y	N	N	Y	Y
8*	N	P	P	Y	P	P	Y	Y	N	Y	P	P
9*	N	P	P	P	N	P	Y	P	P	Y	P	P
<b>Implementation</b>												
10	Y	Y	Y	Y	P	Y	Y	Y	Y	Y	Y	Y
<b>Monitoring</b>												
11*	P	P	Y	P	P	P	Y	P	P	P	P	P
<b>Adaptive Management</b>												
12	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
13*	P	P	P	P	P	P	Y	P	P	N	N	P
14*	Y	Y	Y	N	P	P	P	Y	Y	Y	Y	Y
<b>Additional Practices for Programs Addressing Systemic Issues</b>												
15*	P	NA	Y	N	Y	P	NA	Y	N	NA	Y	Y
16*	P	NA	P	N	P	P	NA	P	P	NA	P	P

<b>TOTALS</b>												
Y	6	7	9	7	6	7	12	12	8	9	10	10
P	7	7	7	4	9	9	2	4	5	3	5	6
N	3	0	0	5	1	0	0	0	3	2	1	0
NA	0	2	0	0	0	0	2	0	0	2	0	0
Total	16	16	16	16	16	16	16	16	16	16	16	16
Program Score*	59%	75%	78%	56%	66%	72%	93%	88%	66%	75%	78%	81%

**KEY:**

Y = practice present

P = practice partially present

N = practice not present

NA = not applicable (traditional programs)

\* Asterisk next to practice number indicates that we consider its presence critical to investing.

Yes	Partial	No	Not Applicable	TOTAL	Score Across Programs
12	0	0	0	12	100%
12	0	0	0	12	100%
9	2	1	0	12	83%
10	2	0	0	12	92%
8	4	0	0	12	83%
3	8	1		12	58%
4	5	3	0	12	54%
4	6	2	0	12	58%
2	8	2	0	12	50%
11	1	0	0	12	96%
2	10	0	0	12	58%
12	0	0	0	12	100%
1	9	2	0	12	46%
8	3	1	0	12	79%
5	2	2	3	12	67%
0	8	1	3	12	44%

<sup>38</sup> Scores are intended to indicate the relative degree to which programs currently employ key investment practices. Each feature was weighted equally. Features that were present received a full score. Features that were partially present received a "half" score. Features that were not present received a score of zero. A sensitivity analysis revealed that the absence of weighting of individual features did not substantially shift relative ranking of programs.





# CHAPTER IV: LOCAL GOVERNMENT PERSPECTIVES

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*Eighty-two local jurisdictions and organizations across Washington provided comments to JLARC on their capacity to make sound, long-term environmental investments. A number of barriers to making investments were identified: lack of organizational capacity for assessment, planning, monitoring, and project coordination (particularly for smaller jurisdictions); the state's project-oriented, short-term funding assistance cycles; shifting state priorities; and inconsistencies between local, state and federal priorities and regulations. These barriers hinder the type of strategic decision-making sought in the investment model.*

*Local government representatives also commented on the services provided by the programs. Several factors that increase the time, complexity, and cost of accessing funding were identified: the large number of funding programs, variations in structures and processes, and frequent changes in those processes.*

*Local governments offered a series of desired structural and process improvements that, from their perspective, might increase local capacity to make sound investments as well as enhance program services: stable funding for planning, education, environmental assessments, and monitoring; improved state technical support; ready access to environmental information; and greater consistency in definitions, applications forms, and reporting requirements across programs.*

The environmental investments made by the audited programs are, in effect, partnerships between the local entities that apply for funding assistance and the programs themselves. To examine these partnerships, JLARC contracted with Berk & Associates to assist in a two-part evaluation of the programs from the local perspective. One part involved a review of the issues surrounding environmental quality **investment decision-making at the local level**. The second part involved a review of local perspectives on the **services provided** by the programs to local governments.<sup>39</sup>

In support of this effort, Berk interviewed representatives from 82 local organizations selected to ensure a mix of geographical diversity and program experience.<sup>40</sup> Interviews were conducted by phone, e-mail, and in person at five focus group meetings around the state.<sup>41</sup> Participants represented cities, counties, special purpose districts, tribes, non-profits, and local planning units. Berk's findings related to investment decision-making and services provided to local government are described in this chapter

## LOCAL ENVIRONMENTAL INVESTMENT DECISIONS

During the course of the interviews, local government representatives outlined a number of factors that influence local environmental investment decisions.

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<sup>39</sup> The full Berk report is entitled: *Local Perspectives Element Final Report*, September 28, 2000. This document is available from JLARC upon request.

<sup>40</sup> Local governments and organizations participating in the interviews are listed in Appendix 13.

<sup>41</sup> Focus group meetings were held in Seattle, the Tri-Cities, and in the three case study regions mentioned in Chapter 2—the Snohomish River, Methow River, and two Lower Columbia River Watersheds.

**Barriers to Strategic Investments.** Those interviewed stressed that, although they are aware of the need to establish long-term and strategic approaches to making sound environmental investments, barriers exist. Barriers cited include: lack of organizational capacity for assessment, planning, monitoring, and coordination (particularly among small jurisdictions); the project-oriented structure of the state's funding assistance programs (as opposed to support for long-term capacity at the local level); shifting state priorities (the natural resource "issue of the hour" syndrome); short-term funding approaches (i.e., annual/biennial funding cycles); and inconsistencies between local, state and federal priorities and regulations.

**Balancing Act.** Multiple drivers affect local environmental investments. In addition to the incentives and priorities established by the state funding programs, other drivers include: federal and state regulatory requirements; responsibilities to provide general government services; population growth; availability of technical information and staff; costs of meeting program eligibility requirements and applying for funds; availability of matching funds; funding for long-term project maintenance and monitoring; and local priorities. Local governments struggle to balance these often-conflicting demands.

**State-Encouraged Collaboration Beneficial, But Not a Panacea.** In recent years, the state has created new processes and frameworks for environmental quality planning and coordination.<sup>42</sup> From the local perspective, coordinated planning can contribute to strategic investments and improve long-term environmental outcomes, but imposes costs while not relieving all barriers. Participating in coordinated planning increases workload on already stretched local staff resources, particularly for smaller jurisdictions and organizations. In addition, because joint planning and coordination does not eliminate competition for project implementation funds, turf issues can impede the coordination process. Local jurisdictions and organizations indicated that the state could assist in this arena by: recognizing local project priorities that are developed; providing stability and clarity in planning structures, roles, relationships, and funding; aligning program funding cycles with local planning, funding, and implementation processes; and aligning regulatory and permitting processes.

**Tools and Approaches Needed to Foster Strategic Investments.** Among the tools and approaches needed to make and improve environmental investments, local governments cite stable funding (including funding for assessment, planning, maintenance, and monitoring in addition to project funding); state technical and financial support to build local organizational capacity; ready access to research, assessment, and other technical information; and program recognition of variations in jurisdiction size, base resources, and environmental conditions.

## LOCAL PERSPECTIVES ON PROGRAM OPERATIONS AND SERVICES

The second part of the local government interviews focused on program operations and services. Local governments identified many examples of current "best practices" within individual programs, as well as a number of larger "system" issues that reflect local governments' experiences working with multiple programs over time.

### Best Practices Identified by Local Representatives

The consulting team from Berk organized their findings on "best practices" into the four process phases previously discussed in Chapter 3: application, selection, implementation, and

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<sup>42</sup> Examples include the development of watershed planning units under Chapter 90.82 RCW, and lead entities for coordinating salmon recovery at the local level under Chapter 77.85 RCW.

monitoring. The following sections highlight findings within each phase across programs. Findings for specific programs are identified in the full Berk report. Note that these findings are offered by local jurisdictions as suggestions to the programs, and do not necessarily indicate a recommendation from JLARC that they be adopted. However, many of the findings are consistent with the investment process model described in Chapter 3.

### Application Phase

Practices that local governments value or desire to see more of in the application phase include:

- Developing a central clearinghouse of environmental funding sources and their availability;<sup>43</sup>
- Increasing consistency across programs in application forms and requirements;
- Developing a “one-stop” consolidated application process, and “common forms for common data;”
- Making applications available on the Internet;
- Frequently updating applicants on the status of their applications (over the Internet or through email);
- Ensuring that program staff are available to answer questions and guide applicants through the application process;
- Conducting workshops to discuss program requirements and processes;
- Providing pre-application or pre-evaluation review to let applicants know if they are “on the right track;” and
- Allowing applicants several opportunities to make project presentations.

### Selection Phase

Practices that local governments value or desire to see more of in the selection phase include:

- Ensuring that the selection process is documented, clear, objective, open, and perceived to be fair;
- Using screening and selection criteria that are discrete, well-communicated, stable over time, and easily available to applicants;
- Including a broad representation of technical experts as well as local peers during technical review and project prioritization;
- Recognizing and respecting local prioritization processes, and allowing flexibility in achieving local goals;
- Giving “credit” for previous successful performance of projects; and
- *Where appropriate*, not forcing large and small jurisdictions, or very different types of projects, to compete with one another. Alternatively, ensuring that a certain amount of base-level funding is provided to equalize jurisdiction size differences.

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<sup>43</sup> Note: Since the local government interviews were conducted, the Transportation Improvement Board has launched a comprehensive on-line grants and loans database: [www.tib.wa.gov/grants](http://www.tib.wa.gov/grants).

## Project Implementation

Practices that local governments value or desire to see more of in the implementation phase include:

- Streamlining program contracting processes;
- Minimizing delays between awarding funding, executing the contract, and starting the project;
- Recognizing regional variations in environmental conditions that influence project implementation;
- Processing payments and reimbursements quickly; and
- Allowing local jurisdictions to choose the funding distribution method (up-front or reimbursement) based on the needs of the project.

## Monitoring

Practices that local governments value or desire to see more of in the monitoring phase include:

- Providing flexibility in reporting requirements to accommodate local processes and conditions;
- Streamlining reporting requirements and reducing the detail required to only what is necessary;
- Making reporting requirements more consistent across programs and aligned with local government reporting standards (i.e., annual reporting);
- Establishing a clear rationale for the information required to be reported;
- Focusing reporting requirements on the environmental outputs and outcomes of projects, and less on process;
- Measuring the cost-effectiveness of strategies;
- Extending reporting timeframes to measure impacts to the environmental system (rather than short-term project impacts); and
- Streamlining project audits.

## Cross-Program Issues to Support Environmental Investments

Although the state programs subject to this audit were not necessarily created to function as a system, it is clear that local jurisdictions, particularly smaller ones, would like to see them function more in that way. The large number of funding programs, coupled with variations in structures and processes, as well as frequent changes in those processes, increases the time, complexity, and cost of accessing funding.

Examples of cross-program service issues cited by local governments include: inconsistent application, eligibility, and reporting requirements; inconsistent program schedules<sup>44</sup>, difficulty in accessing technical assistance due to turnover and reductions in state program staff; and difficulty in understanding the range of funding and services available.

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<sup>44</sup> The large variation in program application and funding schedules is displayed in Appendix 14.

Practices that local governments value or desire to see more of on a **system-wide** basis include:

- Using consistent definitions, application forms, reporting requirements, etc, across programs;
- Shifting funding away from project-specific allocations on an annual or biennial basis and towards long-term system-based solutions;
- Providing ongoing funding for planning, education, environmental assessments, monitoring, and maintenance;
- Providing baseline funding beyond “the environmental resource issue of the year;”
- Providing funding to build organizational capacity; and
- Ensuring that program staff are engaged in every phase of projects to support consistent implementation and collaborative project monitoring by both state and local partners.



# CHAPTER V: KEY FINDINGS AND RECOMMENDATIONS

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*Six recommendations are provided to achieve the following results:*

- ***Increase the systematic collection and sharing of information*** about applications for funding, project locations, baseline conditions, and investment outcomes that can be used to plan and design projects, coordinate investments across programs, evaluate investment performance, and learn from past investments;
- ***Integrate practices from the investment model into program structures and operations*** to shift the focus of program activities towards making sound environmental investments;
- ***Streamline and better integrate program services*** to local governments; and
- ***Ensure that funding agencies work together*** to achieve these goals.

This report has identified the **need for a significant shift in program focus** away from funding distribution and towards strategic investment. The recommendations below are intended to initiate this shift. By implementing these recommendations, **confidence surrounding the state’s environmental investments can be increased and services to local governments can be improved**. Being able to more clearly define and efficiently produce desired long-term environmental results across programs can help **increase certainty that policy-makers’ intent to spend scarce public resources effectively will be achieved**.

**We intend that agencies work together to achieve these goals in a deliberate and strategic manner**. The changes will require collaboration with local governments and may involve agencies and programs outside of the audit. In some cases, statutory amendments may be needed to fully implement all investment practices or to maximize the streamlining of services. The recommendations include annual reporting back to the Joint Legislative Audit and Review Committee over the next five years to monitor progress towards, and provide agencies an opportunity to present their plans for, achieving the goals.

## REPORTING MEANINGFUL DATA

The broad scale and complexity of systemic issues such as salmon recovery increase the risks of failure of individual investments. **Systemic issues** require that investments be coordinated across programs. In addition, reliance on the “learning as you go” approach of **adaptive management** requires that knowledge gained from prior investments be applied to the design of future projects.

**The 12 audited programs currently do not collect sufficient information about investments, particularly regarding mappable project locations, baseline conditions, and outputs and outcomes, to be used for these strategic purposes**. The audit further finds that the Department of Transportation’s Uniform Environmental Reporting System (UEPRS), developed under Chapter 225, Laws of 1999, provides a beginning, but not yet complete or operational framework for central reporting of project location and descriptive information for coordination purposes. At this time, UEPRS is not designed to collect information about applications for funding assistance. This represents a significant barrier to strategically coordinating investments across programs.

### ***Recommendation 1***

***Each agency under this performance audit should continue to work to build internal capacity to report accurate and comprehensive project location and descriptive information to the Uniform Environmental Project Reporting System (UEPRS) for coordinating environmental projects. The Department of Transportation, in consultation with other agencies participating in UEP RS, should consider the feasibility of expanding the system to collect information about, and facilitate coordination of, applications for funding. To this end, consideration should be given to establishing a uniform date for submission of application, pre-application, or intent-to-apply information.***

**Legislation Required:** None

**Fiscal Impact:** Current biennium funding for UEP RS development is available in DOT's 1999-01 budget. Carryforward funding for 2001-03 has been requested by DOT.

**Completion Date:** September 2002

### ***Recommendation 2***

***Each agency under this performance audit should work collaboratively with their funding recipients to develop meaningful and comprehensive output and outcome measures that will be used to assess project and program investment performance and contribute to adaptive management. Programs contributing to salmon recovery should ensure that their output and outcome measures are directly tied to measures within the Salmon Recovery Scorecard.***

**Legislation Required:** None

**Fiscal Impact:** None

**Completion Date:** September 2002

### ***Recommendation 3***

***All agencies under this performance audit should work collaboratively to prepare two separate but coordinated strategic plans for monitoring environmental conditions and investment performance in the areas of water quality and salmon recovery. Plans should be developed in consultation with appropriate federal, state, local, and tribal agencies, and should include coordinated approaches for sharing workload and information, long-term development strategies, and analyses of the benefits and costs of alternative approaches.***

**Legislation Required:** None

**Fiscal Impact:** A fiscal impact is anticipated though the amount is not currently known. In implementing this recommendation, agencies should develop budget proposals to meet the goals of the recommendation in a cost-effective manner.

**Completion Date:** September 2002

## **INVESTMENT PRACTICES**

This audit identifies the importance of maintaining an investment perspective when allocating scarce state environmental resources to projects. As a whole, programs have primarily been designed and operated to *distribute* funding rather than *invest* funding. Competition for funding, evident in most programs, serves as an incomplete surrogate for rigorous investing. Though the programs have generally developed practices that support efficient funding distribution in the



face of high demand, practices that might increase confidence that investments will yield coordinated, cost-effective, and long-term environmental outcomes are missing or incomplete in many programs.

#### ***Recommendation 4***

***Each agency under this performance audit should work to incorporate the key investment practices identified in Chapter 3 into their program structures and operations.***

**Legislation Required:** Potentially. In implementing this recommendation, agencies should identify any statutory changes that may be necessary to accomplish this goal.

**Fiscal Impact:** Indeterminate. In implementing this recommendation and developing any related budget proposals, agencies should identify both short-term and long-term costs and savings that may result from implementation.

**Completion Date:** September 2002

## STREAMLINING AND INTEGRATING SERVICES

The local governments interviewed for this evaluation are aware of the challenges involved with systemic issues and associated environmental investments. However, as a whole they believe that they alone do not have the tools and resources to “fill in the gaps” of the investment and adaptive management process. The project-by-project funding approach of existing state grant and loan programs does not provide the stable foundation many local governments, particularly smaller ones, seek for environmental assessment, planning, monitoring, and maintenance activities.<sup>45</sup> Local governments seek consistency in technical and information assistance from state agencies, and believe that funding programs could be streamlined, made more responsive to local conditions, and better integrated as a system. Local governments have offered a number of suggestions to these ends.

#### ***Recommendation 5***

***All agencies under this performance audit should work jointly and collaboratively with local governments and other funding recipients to streamline and better integrate the project application, selection, implementation, and monitoring process across programs. Consideration should be given to developing standard definitions, planning and eligibility requirements, assessment protocols, application forms, evaluation criteria, contracting procedures, and monitoring protocols. Collaborative methods for increasing the stability and quality of technical and information assistance provided to local governments for making investment decisions should be developed.***

**Legislation Required:** Potentially. In implementing this recommendation, agencies should identify any statutory changes that may be necessary to accomplish this goal.

**Fiscal Impact:** Indeterminate. In implementing this recommendation and developing any related budget proposals, agencies should identify both short-term and long-term costs and savings that may result from implementation.

**Completion Date:** September 2002

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<sup>45</sup> The issue of the availability of ongoing funding for local government environmental quality assessment, planning, monitoring, and project maintenance activities is outside the scope of this audit, though of key interest to many of those interviewed during the course of the study. See Chapter 4 for more detail.

### ***Recommendation 6***

***The Office of Financial Management should coordinate a process for the six audited agencies to deliver annual progress reports to JLARC over the next five years on implementation of the report recommendations, beginning in September 2001. The reports should describe any proposals for statutory and budgetary changes that might be necessary to accomplish the goals of the recommendations.***

**Legislation Required:** None

**Fiscal Impact:** None

**Completion Date:** September 2001 and ongoing

## **AGENCY RESPONSES**

The six agencies (Department of Natural Resources, Conservation Commission, Department of Ecology, State Parks and Recreation Commission, Department of Community, Trade and Economic Development/Public Works Board, and Interagency Committee for Outdoor Recreation/Salmon Recovery Funding Board) administering the 12 programs under this performance audit and the Office of Financial Management have responded to the recommendations contained in this report, each either concurring or partially concurring with the recommendations. Their written responses and auditor's comments are provided in Appendix 2.

## **ACKNOWLEDGEMENTS**

We appreciate the assistance provided by staff of the Department of Transportation, Department of Ecology, Interagency Committee on Outdoor Recreation/Salmon Recovery Funding Board, State Parks and Recreation Commission, Public Works Board, State Conservation Commission, Department of Natural Resources, Department of Community, Trade, and Economic Development, Puget Sound Water Quality Action Team, Department of Fish and Wildlife, Office of Financial Management, and the Governor's Salmon Recovery Office. And, we appreciate the information and feedback provided by legislative members and staff participating on the Legislative Advisory Group for this audit.

We are also thankful to Marty Wine and Courtney Knox of Berk & Associates for their assistance in this performance audit, and to the representatives of the local jurisdictions for their participation in and comments during the interviews and focus group meetings. Finally, we wish to thank Brian Porter, William Rowden, and other staff of David Evans and Associates for their contribution to the case study data collection.

Thomas M. Sykes, Legislative Auditor

On January 22, 2001, this report was approved for distribution by the Joint Legislative Audit and Review Committee.

Senator Georgia Gardner, Chair

# APPENDIX 1: AUDIT SCOPE AND OBJECTIVES

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## SCOPE

This study will examine the performance of environmental quality grant and loan programs that receive funding through the state capital budget.

## OBJECTIVES

1. Describe and compare program purposes, structures, funding, operations, management tools, and outputs.
2. Determine whether the programs are operated in conformance with legislative intent.
3. Diagram and evaluate the relationships among programs, and to other environmental quality planning, management, and technical assistance programs and activities funded in the operating and transportation budgets.
4. Describe the processes used by local governments to identify and prioritize their environmental quality activities and projects. Evaluate the roles played by the programs with regard to these processes. Identify any gaps, duplications, or conflicts that may exist between programs.
5. Identify program practices that influence the efficiency and effectiveness of grant and loan services delivered to local governments. Evaluate whether programs individually and collectively employ best practices in the delivery of those services.
6. Identify factors that influence the long-term effectiveness of environmental quality grant and loan investments made by the programs. Evaluate whether programs are structured and operated to support cost- and environmentally-effective investments. Identify any barriers to measuring, evaluating, or improving effectiveness, and options and opportunities to address those barriers.
7. Identify alternative program structures or funding methods that might be used to deliver environmental quality financial assistance to local governments, including any employed by other states or in other service areas of government. Develop a framework for comparing and evaluating the characteristics of these alternative models in relationship to the long-term efficiency and effectiveness of the state's environmental quality investments.



## APPENDIX 2: AGENCY RESPONSES AND AUDITOR'S COMMENTS

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- Conservation Commission
- Department of Ecology
- Department of Natural Resources
- Interagency Committee for Outdoor Recreation/Salmon Recovery Funding Board
- State Parks and Recreation Commission
- Department of Community, Trade and Economic Development/  
Public Works Board
- Office of Financial Management
- Auditor's Comments



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STATE OF WASHINGTON

## CONSERVATION COMMISSION

JLARC

PO Box 47721 • Olympia, Washington 98504-7721 • (360) 407-6200 • FAX (360) 407-6215

**TO:** Thomas M. Sykes, Legislative Auditor  
**FROM:** Steven R. Meyer, Executive Director  
**DATE:** 12/15/00  
**SUBJECT:** RESPONSE TO INVESTING IN THE ENVIRONMENT

Below are the Conservation Commission's responses to the recommendations contained in the Joint Legislative Audit Review Committee's report on **Investing in the Environment: Environmental Grant and Loan Programs Performance Audit**. Please feel free to contact me if you have any questions.

RECOMMENDATION	AGENCY POSITION	COMMENTS
Recommendation 1	Concur	The Commission participates on the Business Design Team that is developing the design of the UEPRS. Additionally an internal Commission workgroup is looking at ways to update and link the Commission/district project reporting format to the UEPRS.
Recommendation 2	Concur	The Commission began working with its grants recipients in 1995 to improve reporting grant output measures. As part of that effort, districts have been reporting project outputs in terms of practices implemented, acres planted, etc. We need to establish performance goals in consultation and collaboration with other agencies. The one caveat with our concurrence is the potential impact of developing the data to report outcomes.
Recommendation 3	Concur	The Commission believes that it makes sense to coordinate between agencies on monitoring needs to track program outcomes. However, we believe that committee staff may have underestimated the cost of a monitoring program to track environmental changes based on investments.



Recommendation 4	Partially Concur	The Commission recognizes the committee's desire to view the funds spent on environmental programs as investments in our current and future conditions. However, the investment practices do not give adequate weight to political investments. Many programs were developed through processes that involved a great deal of public participation. We believe we need to honor those investments of time and effort and to recognize they could change the way this report views the level of success of many programs.
Recommendation 5	Concur	Where applicable, state agencies should make funding programs easier to access by local governments and nonprofit organizations. At the same time, we must continue to meet our fiduciary responsibilities by managing programs in a manner that protects the public funds entrusted to us.
Recommendation 6	Partially Concur	The Commission concurs that the agencies should provide regular updates to JLARC. We suggest biennial updates. However, we cannot respond for the Office of Financial Management as to who is the appropriate coordinating agency for these efforts.

cc: Commission Members  
Jennifer Belcher, DNR  
Tom Fitzsimmons, Ecology  
Cleve Pinnix, Parks & Recreation Commission  
Pete Butkus, Public Works Board  
Laura Johnson, IAC  
Marty Brown, OFM  
Jim Cahill, OFM



STATE OF WASHINGTON

DEPARTMENT OF ECOLOGY

P.O. Box 47600 • Olympia, Washington 98504-7600  
(360) 407-6000 • TDD Only (Hearing Impaired) (360) 407-6006

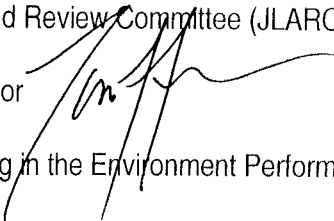
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DEC 19 2000

December 15, 2000

JLARC

TO: Thomas M. Sykes  
Legislative Auditor  
Joint Legislative Audit and Review Committee (JLARC)

FROM: Tom Fitzsimmons, Director 

RE: Response to the Investing in the Environment Performance Audit

Thank you for providing an opportunity to comment on the preliminary report, **Investing in the Environment: Environmental Grant and Loan Programs Performance Audit**. I want to acknowledge the hard work demonstrated by you and your staff. Our understanding of how best to manage and coordinate the programs that invest in environmental solutions is evolving and your efforts to create this dialogue are appreciated.

The draft report demonstrates an impressive understanding of the systemic environmental challenges facing our state. The work needed to recover endangered salmon species will indeed span the state's geography and most of its political jurisdictions. It will require a long-term financial commitment, and it will depend upon a commitment to a well-understood strategy.

By recognizing of the importance of environmental data, the draft report focuses attention on an area that has been too often overlooked. Resources are needed to create and support a state-wide system that produces the data necessary to evaluate and learn from the investment experiences. Without out additional resources, the state will be unable to evaluate investment outcomes. For this reason, Ecology believes the first priority for new funding to support information systems should be in the fundamental gaps that exist in our ability to collect and share basic information about the condition of our natural environment.

Underscoring this belief, the Department of Ecology's budget proposal would begin to close the gaps that currently exist in the state's environmental data collection system. The agency's budget prioritized funding for systemic collection of water quality and water quantity data in our submission to the Office of Financial Management. An important piece of our budget request has been closely tied to concurrent efforts of the Washington Department of Fish and Wildlife so that water quality/quantify monitoring is undertaken is several "index watersheds" where salmonid smolt production will be monitored. The bottomline is that significant funding would be required to implement the vision that is proposed in the audit.





The rationale for the emphasis the draft report places on investments in information technology to centralize administration of existing grant programs is not made clear. While the draft acknowledges adaptive management as an existing method of applying learning to problems, Ecology believes the report underplays the rationalizing and coordinating power of environmental data. It is becoming clear from our experience working with local communities on watershed management and salmon recovery issues that data has a profound effect on the investment choices that are made. While often incomplete, existing data that addresses questions about water quantity, in-stream flows, and water quality is currently driving resource allocations by local and state decision-makers.

A method of sharing standardized local data statewide is central to making better investment decisions. Access to these data facilitates performance assessment and will drive program and policy changes based upon investment experience over time. The diversity and decentralized learning that takes place in this alternative model may well prove to be a highly effective and efficient method of administering environmental grants and loans. Access to shared data and an ability to learn from a diversity of approaches will support better decision-making.

An example of how data and data expectations will influence future decisions across jurisdictions is the work currently being done by Steve Leider in the Governor's Salmon Recovery Office to create a baseline watershed assessment approach. Rather than looking at the symptoms of habitat degradation and water quality impacts, the approach would look at the processes that cause environmental damage in the watersheds. If successful, this work promises to significantly raise expectations for applicants by setting a strategic framework for their work, by aligning investments to solve problems at the core causes, and by improving the quality of data needed to compete for future implementation resources.

The draft report asks many of the right questions of Washington's environmental investment programs. In doing so it contributes to a dialogue that will continue to improve these systems. The breadth of the draft report, however, leaves many practical questions regarding existing state law and the interests of local jurisdictions unaddressed. It would be helpful for committee members to see the extent to which the draft report will require new funding or new legislation to implement. The vision offers much that is positive and worth pursuing. The challenges that exist, fiscal and legal, should be made more explicit.

I look forward to working with members of the committee and fellow cabinet members to address these important issues.

Attachment

**Investing in the Environment:  
Environmental Grant and Loan Programs**  
Comments by the Department of Ecology on the Draft Report

RECOMMENDATION	AGENCY POSITION	COMMENTS
Recommendation 1	Partially Concur	<p>To achieve successful outcomes, public sector investments in data systems have historically required:</p> <ol style="list-style-type: none"> <li>1) Adequate funding;</li> <li>2) Project goals and systems developed in close coordination with customers; and,</li> <li>3) Clear accountability relationships.</li> </ol> <p>In general Ecology supports the UEPRS concept, but has significant concerns in each of the above areas. Most important among these concerns, Ecology believes that the significant evolution of the UEPRS system that has occurred is an opportunity to rethink its technical design and location. The current reality and the vision articulated in the draft report are not completely connected. The newly created Salmon and Watershed Information Manager presents an opportunity in this regard. This position was created to help coordinate cross-agency natural resources data and systems. A partnership with OFM or DIS would be necessary to house the system itself.</p>
Recommendation 2	Concur	
Recommendation 3	Strongly Concur	<p>Systemic environmental data systems are not currently funded and are therefore largely absent. Without these data, neither project nor programmatic performance assessment is possible. Access to them would provide powerful incentives to improve investment decisions. Ecology believes an investment in the collection and distribution of this data is the logical first step to improving the quality of the state's environmental investments.</p>
Recommendation 4	Concur	
Recommendation 5	Partially Concur	<p>On the surface, the recommendation proposes a simple goal: efficiency through improved coordination. Improvements are possible and should be pursued.</p> <p>However, the diversity of policy objectives and stakeholders that shape and rely upon natural resource grant and loan programs poses significant challenges to a centralized or standardized model. For a variety of reasons, the Legislature has historically favored a decentralized approach to deal with these issues. In many significant ways existing laws require</p>

this approach. A decentralized administrative structure might well address the needs of diverse stakeholders more efficiently and effectively than the approach recommended by staff.

Recommendation 5,  
Continued.

Alternatively, Ecology believes that investments in environmental data collection for targeted indicators of watershed health will have a powerful effect on the coordination of project selection criteria, monitoring, and assessment. It is becoming clear that effectiveness will depend greatly upon access to environmental data that shed light on core issues while taking steps in the direction of shared learning and improved accountability. Diverse processes and investments may offer benefits that speed this learning process. Collecting and sharing environmental data should be the state's first funding priority in this arena.

The rationale underlying the leap to a standardized or centralized approach is not made completely clear in the draft report. Neither is the extent to which significant legal and fiscal issues will affect an agency's ability to implement the recommendations.

Recommendation 6

No Response

Ecology believes that OFM can and does play a useful role in evaluating and allocating the state's natural resources investments. It seems appropriate, however, to defer comments on the proposed legislative expectations to OFM.



WASHINGTON STATE DEPARTMENT OF  
**Natural Resources**

JENNIFER M. BELCHER  
*Commissioner of Public Lands*

December 13, 2000

Mr. Thomas M. Sykes, Legislative Auditor  
Joint Legislative Audit and Review Committee  
PO Box 40910  
Olympia, WA 98501

Dear Mr. Sykes,

Thank you for the opportunity to comment on the Investing in the Environment: Environmental Quality Grant and Loan Programs Performance Audit conducted by the Joint Legislative Audit and Review Committee (JLARC). The Department of Natural Resources (DNR) appreciates the efforts conducted by the JLARC staff to work with the agencies in assessing this important issue of performance for the various environmental capital grant programs.

The DNR concurs with all of the audit recommendations. The DNR is already working to incorporate some of the recommendations into its Aquatic Lands Enhancement Account (ALEA) grant program for the 2001-03 funding cycle. The largest barrier to accomplishing these recommendations will be allocating the necessary staffing resources, particularly as the DNR works to maintain reasonable administrative costs.

In addition to the DNR's concurrence with the audit recommendations, the department offers these additional observations for the JLARC's consideration.

- 1) There is little connection between environmental quality data collected for regulatory purposes and data collected for grant project purposes. Data collected under a regulatory program does not get translated to the investment side of environmental performance. This is particularly true in the areas of historic and baseline data. The broad distribution of all data would be beneficial as well as cost effective as state and local governments work to address environmental quality improvement needs.
- 2) Environmental quality grants should not be tied to public works mitigation projects. Grants should be directly applicable to the project and should not compensate sponsors for mitigation requirements. Environmental quality grants are for the purpose of improving some environmental problems. Grant funding of mitigation projects defeats the intent of real improvements by encouraging the degradation of one natural area at the expense of improvements in another area.

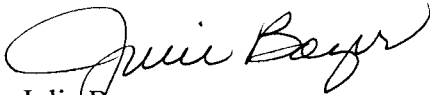
December 13, 2000

- 3) Any strategic plan developed for monitoring baseline environmental quality conditions and the data these plans generate should be made available to the public and tied into comprehensive planning efforts. This will aid local communities in developing programmatic environmental quality plans, identifying and analyzing potential projects, and meeting project reporting and monitoring requirements within Growth Management Act and Shoreline Management Act processes.
- 4) Footnote 45 is an important point which should be further addressed. While it will be important for agencies to work cooperatively with applicants to develop output and outcome measurements on a programmatic level, finding the resources at the local level to accomplish a systemic analysis of local environmental quality is paramount for local government to identifying the best potential opportunities.
- 5) The audit does not discuss the different legislative processes that each grant and loan program must meet. There are various legislative steps that can add to the confusion of the grant process for agency staff and applicants. The legislative process may also hinder some of the coordination recommendations made in the audit (e.g. timing of applications). This is another area of possible consolidation and streamlining to aid local jurisdictions in receiving funding from the state.
- 6) Funding of the state grant programs so the experienced grant managers can provide technical assistance to the applicants at the planning level is one of the most effective improvements that can be made. The DNR's ALEA grant program offers assistance to applicants and grantees; however, limited staffing has prevented the DNR from providing the scale of assistance recommended in the audit. Improved grant technical assistance would particularly aid economically distressed communities or those counties with lower population bases.
- 7) The DNR brings to the JLARC's attention the Northwest Cooperative Agreement as adopted January 2000 by various state and federal agencies. The intent of the agreement is for "agencies to work cooperatively to promote 'environmental streamlining' that will facilitate the timely delivery of quality transportation programs, protect and enhance environmental quality, and make effective and efficient use of agency resources." Some of the principles may be important to recognize within the scope of the audit. In particular, the audit recommendations should be coordinated with the agreement to ensure proposed actions are consistent with the agreement and not counter-productive. Please find a copy of the agreement enclosed for your convenience.

Thomas M. Sykes, Legislative Auditor  
Page 3  
December 13, 2000

Thank you this opportunity to provide comments on the Investing in the Environment:  
Environmental quality Grant and Loan Programs Performance Audit.

Sincerely,



Julie Boyer  
Department Supervisor

c: Maria Peeler, Deputy Supervisor of Aquatics  
Chuck Turley, Division Manager, Aquatic Resources Division  
Leslie Ryan, ALEA Program Manager, Aquatic Resources Division

# ***Northwest Cooperative Agreement on Environmental Streamlining and Interagency Cooperation on Environmental and Transportation Issues***

The undersigned agencies agree to work cooperatively to promote "environmental streamlining" that will facilitate the timely delivery of quality transportation programs, protect and enhance environmental quality, and make effective and efficient use of agency resources. This agreement sets forth principles for coordinating transportation planning, program, and project development processes in accordance with the Transportation Equity Act for the 21st Century, the National Environmental Policy Act, the Endangered Species Act, and other relevant state, tribal and federal statutes and initiatives.

## ***Principles of Agreement***

### ***Section 1: Process Improvements***

- ☐ Develop processes that assure the timely development of cost-effective and environmentally sound transportation plans and projects. These processes should emphasize early involvement and the use of concurrent reviews of plans and projects.
- ☐ Recognize effective and successful coordination processes and use them as a basis for improving coordination and cooperation among stakeholders.
- ☐ Develop regional and state specific interagency agreements and mutually agreed upon standard operating procedures. Programmatic approaches and the certification of state programs based upon performance audits should be considered as a means to streamline processes.
- ☐ Agencies should recognize regional state priorities and establish interagency review time frames.
- ☐ Establish an acceptable conflict resolution process.
- ☐ Review the effectiveness of streamlining processes with respect to timeliness and environmental protection benchmarks and make adaptive management changes as needed.

## ***Section 2: Data Gathering, Development and Information Sharing***

- ☐ Identify data needs, emphasize the development of compatible data management systems, gather pertinent data, and share information to help shape transportation decision making and improve environmental quality.
- ☐ Provide opportunities for the participation of all stakeholders and the public throughout transportation planning and project development processes.
- ☐ Respect other agency's proprietary information designations.
- ☐ Develop interagency capacity to share data by adopting compatible data system technologies.
- ☐ Encourage continued regional discussions as well as state specific dialogue on relationships between land use, growth, and transportation using state-of-the-art information management tools.

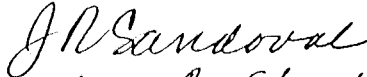
## ***Section 3: Resources***

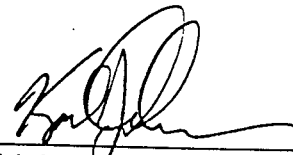
- ☐ Remove constraints on agency workforce, budgets, and authorities which affect the success of streamlining activities.
- ☐ Develop pilot programs to promote new ways of utilizing fiscal and human resources. Allow agencies to demonstrate sufficient technical expertise and capabilities to administer new programs.
- ☐ Develop partnership agreements between agencies to share resources, promote watershed and programmatic approaches to reduce costs and improve benefits. Cost savings should be recaptured by the participants to promote further improvements.
- ☐ Support adequate staffing, program, and capital budgets needed for tribes, state, and federal agencies to successfully achieve environmental streamlining.



Northwest Cooperative Agreement on  
Environmental Streamlining and  
Interagency Cooperation on Environmental and Transportation Issues

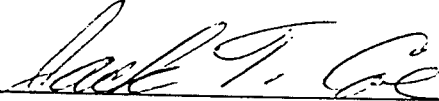
  
Idaho Transportation Department

  
for C. Stephen Alved  
Idaho Division of Environmental Quality

  
Idaho Department of Water Resources

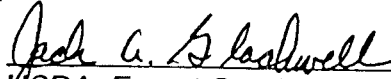
  
Idaho Department of Fish & Game

  
State Historic Preservation Office


  
USDOT, Federal Highways Administration,  
Idaho Division

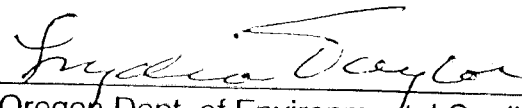
  
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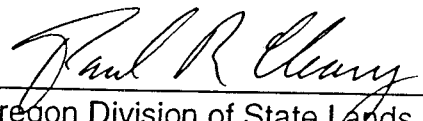
  
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USDA, Forest Service, Region 4

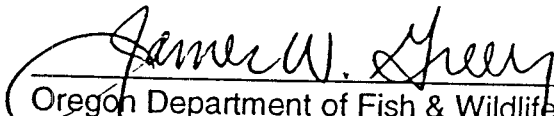
*Northwest Cooperative Agreement on  
Environmental Streamlining and  
Interagency Cooperation on Environmental and Transportation Issues*

  
Oregon Department of Transportation


  
Oregon Dept. of Environmental Quality

  
Oregon Division of State Lands


  
Land Conservation & Development Dept.

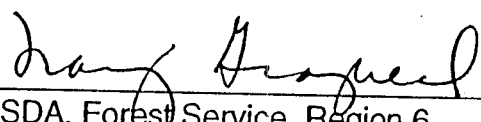
  
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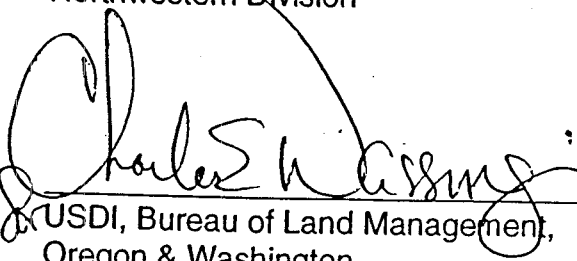
  
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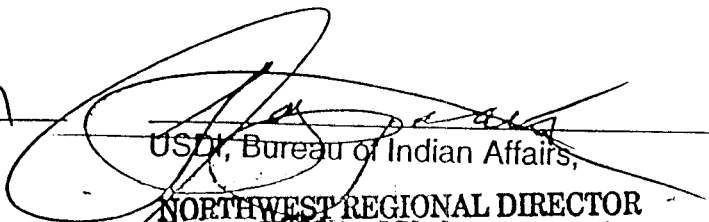
  
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Oregon Division

  
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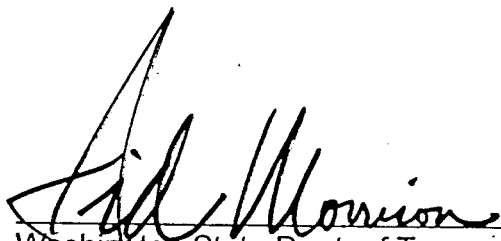
  
US Army Corps of Engineers,  
Northwestern Division

  
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USDI, Bureau of Land Management,  
Oregon & Washington

  
USDI, Bureau of Indian Affairs,  
**NORTHWEST REGIONAL DIRECTOR**

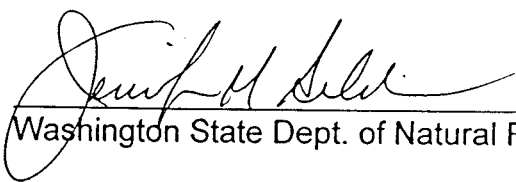
**Northwest Cooperative Agreement on  
Environmental Streamlining and  
Interagency Cooperation on Environmental and Transportation Issues**



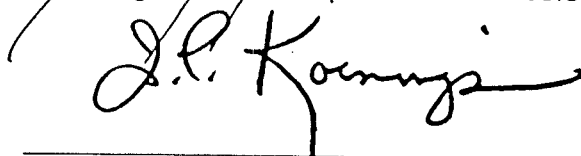
Washington State Dept. of Transportation



Washington State Department of Ecology



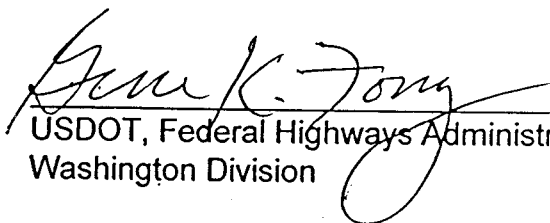
Washington State Dept. of Natural Resources



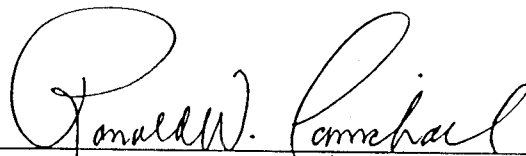
Washington State Dept. of Fish & Wildlife



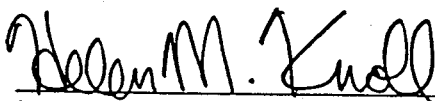
Office of Archaeology and Historic Preservation



USDOT, Federal Highways Administration,  
Washington Division



USDOT, Federal Highways Administration,  
Western Federal Lands



USDOT, Federal Transit Administration  
Region 10



US Environmental Protection Agency,  
Region 10



DOC, National Marine Fisheries Service,  
Northwest Region



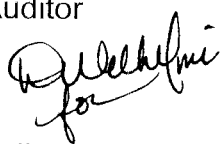
Department of Community, Trade and  
Economic Development



STATE OF WASHINGTON

OFFICE OF THE INTERAGENCY COMMITTEE  
1111 Washington Street SE  
PO Box 40917  
Olympia, WA 98504-0917

December 17, 2000

TO: Thomas M Sykes, Legislative Auditor  
FROM: Laura Eckert Johnson, Director   
SUBJECT: Investing in the Environment Audit - Response

RECEIVED  
DEC 18 2000  
JLARC

Thank you for the opportunity to respond to the *Investing in the Environment: Environmental Quality Grant & Load Programs Performance Audit*. We appreciate the fairness, quality and effort that went into this audit.

This office has two environmental grant programs which were included in the audit: Washington Wildlife and Recreation Program (WWRP - Habitat Conservation Account), and Salmon Recovery projects, under the Salmon Recovery Funding Board.

We wish to thank you and your staff for the professionalism and courtesy they displayed throughout the audit process. They have produced a worthwhile piece of work.

We have attached a chart of specific comments on each of the 5 applicable recommendations in the audit. To offer context for our comments, we share the following observations:

- We are pleased to continue and improve our coordination with other grant programs that potentially overlap our grant programs. We will evaluate the need to introduce legislation to foster this coordination where applicable and work closely with our local partners to ensure the changes positively impact them.
- Your audit represents a significant assessment of part of the state's overall approaches to environmental issues. We note that the audit was not able to cover a number of other programs that also contribute to the state's array of environmental assistance programs.



- For the programs that were audited, in addition to the suggested best practices the audit identifies, there is often other guidance which must also be considered. Statutory guidance, extensive local planning, and public outreach processes often guide program's work. While our office is supportive of the insights and methods your audit has suggested, we are committed to using the tools the audit identifies in the context of good public process and consideration of the many applicable sources of guidance which shape the programs' work.
- We agree that programs should move towards greater abilities to assess and report outcomes of funding decisions. We will explore developing additional benchmarks and criteria. Grants which are relatively small, or which are part of much larger or multi-phase local projects, will be difficult to assess meaningfully or efficiently, and may create additional burdens for local partners.
- The Salmon Recovery Funding Board (SRFB) requested funding to ensure the development of a statewide, multi-agency strategy to help answer the outcomes questions the audit identifies. The Board is committed to address this issue and continues to pursue this budget request. It is an important element to monitor and capture data about the effectiveness of all our salmon restoration and environmental projects on a cumulative basis. The agency monitors to ensure projects are completed within budget, on-time and within the scope as identified in the application. Effectively monitoring if a group of projects have cumulatively made a positive effect on the environment requires a much broader strategy.
- The Interagency Committee for Outdoor Recreation (IAC) staff are currently participating in the Uniform Environmental Project Reporting System (UEPRS). At this time only the feasibility study has been completed by a contractor under Department of Transportation leadership. Design and development of the system is just getting underway. It is not yet clear which elements, including application data, will be included in the development. There are several other systems that could also provide this type of data, such as the Washington State Fish and Wildlife system, SSHIAP. SSHIAP has the advantage of containing critical environmental data, such as stream width and health. SSHIAP has planned to eventually contain project level data and IAC has worked closely with this agency to ensure data compatibility.

If you have any questions, please feel free to contact me or Debra Wilhelmi at 902-3000.

RECOMMENDATION	IAC/SRFB RESPONSE	COMMENTS
Recommendation 1: Project Location Data	Partially concur	In general, we support continued work to better address data-collection and use needs for natural resources issues. IAC/SRFB data is already geo-referenced, and we have been working with the UEPRS project steering group. This or similar systems will require significant additional work to define their scope and utility. Effective implementation will also require additional resources. Other systems such as SSHIAP should also be considered.
Recommendation 2: Output and outcome measures	Partially concur	We are active participants in work such as the Salmon Recovery Scorecard, and agree that it and other efforts to better identify, track and report outcomes are necessary and worthwhile. It may be difficult and costly for grant recipients to work with state grantmakers in identifying meaningful outcome baselines and tracking systems. In part this is due to cost, and in part because many grants are for only part of what are often long-term or multi-phase projects. State grantmakers will need to offer considerable assistance to stakeholders in developing such measures. Also, in many cases, initial baseline data will be lacking, so outcome measures may be focused on the intent of the grant programs rather than the broader context suggested by the audit.
Recommendation 3: Strategic Plans for monitoring	Concur	SRFB has identified this as a high priority for the state. Funding and resources for collaboration will be necessary for successful implementation.
Recommendation 4: Incorporate key investment practices	Partially concur	IAC and SRFB already include most of the elements in some manner. In some cases, future incorporation will need to consider constituent abilities to participate, and their preferences. For example, determining the cost-benefit of projects may be prohibitively costly for some grants processes. Developing "minimum scores" thresholds will be challenging for new programs and may also preclude experimental projects or methods. To the extent elements of the suggested practices are not in current statutory direction, further policy direction would be appropriate before all agency grant programs could or should cover all sixteen elements, or other additional "best practices" that evolve.
Recommendation 5: Collaborate to streamline and integrate processes.	Partially concur.	We are committed to continuing our efforts to be more streamlined and better-integrated with other state or federal investment programs. Constituents will need to be partners in the process, to ensure that improvements are truly addressing their important needs.

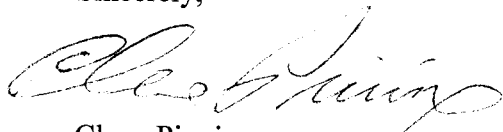


Recommendation #6: Partially concur. All agencies affecting water quality should be included in the process. We understand the rationale for selecting granting agencies for the initial audit. However, agencies such as Dept. of Health should also be included.

Whether installation of boat sewage disposal facilities (pumpouts) is measured as an output or outcome, we believe they contribute to the protection from degradation of water quality. More pumpouts is a contribution to water quality. Two ways the state could add significantly to the installation of pumpouts are provide funding assistance and require their installation on state owned tide lands. RCW 79A.60.510-595 could be amended to function nearly the same as the Clean Vessel Act, require no match, and be funded from existing vessel registration fees. The Dept. of Natural Resources could require that all public and private marinas using state owned tide lands install appropriate boat sewage disposal facilities as a condition of renewal of their lease.

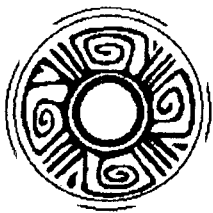
Thank you for the opportunity to comment on the preliminary audit recommendations. If you have questions, please don't hesitate to contact James Horan at (360) 902-8580 email [james.horan@parks.wa.gov](mailto:james.horan@parks.wa.gov) or Dona Wolfe at (360) 902-8511 email [dona.wolfe@parks.wa.gov](mailto:dona.wolfe@parks.wa.gov).

Sincerely,



Cleve Pinnix  
Director





Washington State  
**Public Works Board**  
Post Office Box 48319  
Olympia, Washington 98504-8319

December 15, 2000

**RECEIVED**

**JAN - 5 2001**

**JLARC**

The Honorable Georgia Gardner, Chair  
Joint Legislative Audit and Review Committee  
Post Office Box 40910  
Olympia, Washington 98504-0910

Dear Senator Gardner:

The Public Works Trust Fund (PWTF) Construction Loan program, managed by the Public Works Board, was included among the 12 programs assessed as part of the *Investing in the Environment: Environmental Quality Grant and Loan Programs Performance Audit*. During the course of the audit, it was pointed out that the Board's statute, Chapter 43.155 RCW, does not focus the Construction program or any of the Trust Fund's family of programs on resolving environmental issues. Rather, it provides clear policy direction:

*It is the policy of the state of Washington to encourage self-reliance by local governments in meeting their public works needs and to assist in financing of critical public works projects.... (43.155.010)*

The focus of the PWTF programs is to respond to locally identified and critical public works projects. Based on this legislative directive, the Board has built a 15-year reputation of successful accomplishments.

As requested by Committee staff, I am providing specific comment on the recommendations in the Audit as they relate to the PWTF program. The comments in the requested matrix format are enclosed. The following are general comments.

Concerns with the Draft Audit Report

Many of the nearly 1,000 projects financed by the Board have an environmental aspect to them. Wastewater, storm water, solid waste/recycling, and, the PWTF's largest component, drinking water system improvements are frequently necessitated by environmental concerns. However, the Audit excluded water projects from consideration, thereby eliminating over 40 percent (40%) of PWTF loans from the study.



Administrative services provided by the Department of Community, Trade and Economic Development

(360) 586-4172

FAX: (360) 664 3029

Web Site: [www.crab.wa.gov/pwtf](http://www.crab.wa.gov/pwtf)

The Audit also excluded the federally financed Drinking Water State Revolving Fund (DWSRF), which is jointly managed by the Department of Health and the Public Works Board. Projects that improve drinking water quality or promote water conservation are by definition environmentally focused. Excluding drinking water programs and the projects they finance from consideration leaves a significant body of information about environmental improvements untapped.

I believe it is important to consider the Audit's findings in light of these facts. It is especially important when the report states "... (these 12) programs are fundamentally oriented towards *distributing* public dollars towards areas of environmental need rather than *investing* those dollars." The Public Works Board's mission is to **invest** public funds in locally determined priorities, some of which may be environmental in nature. By stating that the PWTF Construction program merely distributes funds, the Audit diminishes the capital investment planning of local governments - as required by state law - and the competitive selection process put in place by the Board.

Information presented in Exhibit 3.3: Investment Analysis Tallies and Scores also raises concerns. JLARC staff reviewed the 16 criteria noted on the table and discussed the program's status with regard to each criterion. My concern is not with the information within the exhibit but with the scoring that is done with that information. Answers were assigned values and the table presents the results as percentages, implying that programs can be ranked and readily compared with one another. Instead of this table with numerical rankings, I encourage the Committee to focus on the table's underlying descriptions. That is, the information would remain in a nominal state with no numeric values attached to what each program does in responding to the 16 criteria.

#### Support for the Audit Process

While I have the above-noted reservations, I generally concur with the recommendations and am interested in their implementation. In several instances, the Board has already taken steps to promote strategic environmental improvements. Three examples are:

- The Board recently approved a Memo of Understanding and Agreement dealing with the coordination of environmental review processes. This agreement among federal and state agencies streamlines and coordinates the environmental review process for drinking water and water quality projects.
- The Board has expanded the role that its planning loans may play in completing regional biological assessments and related reports essential to basin-wide environmental improvements.
- Program guidelines have been modified to include infrastructure for new growth. This allows simple repair and replacement projects to be properly designed and constructed to the 20-year population horizon.

I concur that the lack of baseline environmental quality conditions severely limits the ability of local governments and their federal and state partners to plan and implement projects that protect or enhance the environment.

Reporting accurate project locations is a significant undertaking, one that should not be taken lightly. Many projects associated with drinking water, storm water, and wastewater systems are difficult to locate, as they are miles in length or serve a large geographical area. Developing systems that "accurately and comprehensively" locate these facilities is expensive, time consuming, and subject to error.

However, having a picture of what's in the ground or proposed for installation may serve the local governments and their partners in the future. The Board's staff is taking steps to enhance the reliability and accuracy of information it provides about project location to comply with the SB 1204 process.

Coordinating the application and selection process of multiple infrastructure financing programs has been a goal of the Public Works Board for many years. Working with the Infrastructure Assistance Coordinating Council (IACC) and its federal and state member organizations, the Board has participated in several "joint application" attempts.

These attempts have led to the conclusion that joint applications do not necessarily mean a shorter or easier application for its customers. Another important fact to note is the statutory requirement that the PWTF Construction Loan program must receive legislative approval of its loan list prior to releasing funds. The requirement does not correspond to the construction cycle or season, nor the application cycles of most of the Board's financial assistance partners.

Other programs have worked their selection processes around that of the PWTF to maximize the coordination of the funding decision process. Efforts to further streamline the PWTF selection process are underway. The IACC is continuing its effort to coordinate the selection processes of its 25 member programs.

Incorporating the key investment strategies suggested in Recommendation 4 of the Audit will be considered as the Board continues to update and improve its application and selection processes. However, it must be emphasized again that the statute guiding the Board and its programs focuses on improving local government transportation, public health and safety and environmental enhancements projects. While improving the environment is a facet of that directive, it is only one component. Reducing the number and severity of traffic accidents is another.

The Board's legislatively defined mission is to respond to local government priorities as established through their capital facility plans. These efforts may place "non-environmentally motivated" projects higher on their list of needs. The Board's responsibility is to ensure that the state's investment conforms to state law and meets the statutory intent of Chapter 43.155 RCW.

The Honorable Georgia Gardner  
December 15, 2000  
Page 4

### Conclusion

Thank you for your interest in the Board's performance as covered in the Audit. The Board is pleased to participate in this effort to improve program functions and reporting. The Board will continue to provide customer-friendly, cost effective and non-bureaucratic financial assistance for local government projects.

In the larger picture, local governments play the center role. They are on the front lines balancing the infrastructure needs driven by concerns over transportation, public health and safety, economic development, system performance, and environmental health. They must make the difficult choices on which community needs and wants will be made the top priorities and financed. They must make the difficult choices on local tax and fee issues, decide whether to seek grants, issue debt by means of a loan or bond issue or a combination of all three. As a state agency, the Board's greatest asset is the partnerships it has forged among the citizens, local governments, state agencies, and federal programs for the public good. The Board will continue to strengthen these bonds and promote wise **investment** of public funds.

Finally, you need to know that Committee staff, particularly Heather Moss and Karl Herzog, have been helpful throughout the lengthy and sometimes stressful process. They deserve kudos for their efforts to involve all players in this Audit effort.

If I can be of further assistance, contact me at: [pete.butkus@pwb.wa.gov](mailto:pete.butkus@pwb.wa.gov) or 360/725-5003.

Sincerely,

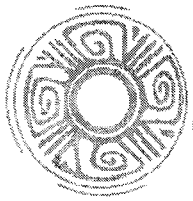


Pete Butkus  
Executive Director

PAB:ejr

Enclosure

cc: Public Works Board



Washington State  
**Public Works Board**  
 Post Office Box 48319  
 Olympia, Washington 98504-8319

<i>Recommendation</i>	<i>Board Position</i>	<i>Comments</i>
1.a Build internal capacity to report accurate and comprehensive project location and descriptive information to the UEPRS.	Concur	The Board will continue to acquire location data from its clients. It will use current technology to verify the coordinates and ensure the accuracy of the data. This new service will begin in 2001.
1.b DOT should consider expanding the system to collect information about, and facilitate coordination of, applications for funding.	Concur with comments	There are over 30 federal and state programs that deliver financial and technical assistance to local governments in regards to infrastructure improvements. The burden to coordinate these programs cannot realistically be given to one agency. The Board recommends working with the Infrastructure Assistance Coordinating Council (IACC), a non-profit organization made of these 30 programs, to continue working towards streamlining and coordinating the delivery of these services.
1.c Consideration should be given to establishing a uniform date for submission of application, pre-application, or intent-to-apply information.	Concur with comments	Consideration has repeatedly been given over the past 10 years by the members of IACC to accomplish this. The single biggest impediment to accomplishing this is the statutory requirement for having the Legislature approve the Public Works Trust Fund Construction Loan List.
2. Work collaboratively with funding recipients to develop output and outcome measures to assess project and program investment.	Concur with comments	The Board, as a result of this audit, reviewed its use of performance measures for projects it funds. The Board agreed that more could be done. It is conducting research on past projects and will establish a "customer friendly" approach to future performance measurement efforts. Both efforts will be completed in 2001.
3. Prepare strategic plans for monitoring environmental conditions and investment performance in the areas of water quality and salmon recovery.	Concur with comments	For the Board, water quality and salmon recovery are only two of the interests its resources must serve. Public health and safety, economic development and system performance are others among a growing list. The availability of benchmarks in all of these areas would be beneficial. The Board will work towards this outcome.
4. Incorporate the (16) key investment practices identified in the audit into program structures and operations.	Support varies among the 16 criteria	See criteria specific comments below:
Practice 1. Broadly advertise information about the program.		Audit indicated the Board was doing this adequately.
Practice 2. Provide technical assistance.		Audit indicated the Board was doing this adequately.

<b>Recommendation</b>	<b>Board Position</b>	<b>Comments</b>
<b>Practice 3.</b> Applicant documents formal analysis for the need of the project.		Audit indicated the Board was doing this adequately. However, this is being reviewed as part of the application update.
<b>Practice 4.</b> Selection process is documented, clear, objective and open.		The audit indicates that the Board could improve in this area. This was based on the audit's sole focus on an environmental reason for the selection of projects. The Board, as noted in recommendation 3 comments above, has multiple compelling reasons for approving a project. However, the Board is reviewing its application review and selection process to ensure it is as clear and objective as possible.
<b>Practice 5.</b> Evaluate the environmental quality benefits of the projects. (Environmental quality benefits are the focus of program investments...)		As noted above, environmental benefits are among a long list of statutory outcomes to be considered by the Board. It would be inappropriate for the Board to focus solely on environmental benefits. When projects are undertaken to generate environmental benefits, their success should be evaluated.
<b>Practice 6.</b> Evaluate the likelihood that the benefits will be produced.		The Board is reviewing its use of performance measures regarding the projects it funds. Research will be done to assess past projects and modifications to the application process are underway to ensure an ability to measure results in the future.
<b>Practice 7.</b> Evaluate the costs relative to the benefits.		This implies that projects have definitive outcome measures, i.e. number of salmon returning during October. However, a significant majority of projects are done for reasons that are not as "calculable" as that, such as complying with NPDES standards, USDOT regulations, or extending the life of a system. When possible cost-benefit analysis will be done. However, the Board leaves the cost-benefit analysis to the local government that conducted the capital investment planning process.
<b>Practice 8.</b> Evaluate readiness to proceed.		While a readiness to proceed component exists in the Board's selection process, staff is reviewing these criteria more closely and may recommend changes that enhance this as criteria.
<b>Practice 9.</b> Employ a minimum threshold for projects to receive funding.		The Board establishes the minimum threshold at two points in the selection process. First, applicants must conform to GMA or equivalent requirements and numerous other entry-level qualifiers. Second, the Board establishes scoring levels those applicants must achieve in order to be selected.
<b>Practice 10.</b> Implementation and expenditure plan and schedule specified in the contract and enforced.		Within reason, this is an appropriate recommendation. However, projects are frequently influenced by unanticipated events. Lawsuits may be brought at any time or weather conditions can impact construction schedules. The Board receives 30-40 requests for extensions in a given year. Staff reviews the rationale, and makes recommendations.
<b>Practice 11.</b> Project output and outcome data is collected from sponsors.		See recommendation 2 comments above.
<b>Practice 12.</b> Program compiles and publishes comprehensive process and workload measures.		This is a natural outcome of implementing recommendation 2 and recommendation 4.11.

<b>Recommendation</b>	<b>Board Position</b>	<b>Comments</b>
<b>Practice 13.</b> Program compiles and publishes output and outcome measures that directly relate to program investments.		This is a natural outcome of implementing recommendation 2 and recommendation 4.11.
<b>Practice 14.</b> Program regularly consults with an external advisory group.		The Board is the authority for the programs and directs its policies and practices. It frequently requires staff to survey clients and financing partners to determine if changes are needed.
<b>Practice 15.</b> Coordinate investments at the funding stage.		The Board does this for all programs. The 2001 Construction Loan List was coordinated with selections made by the office of Rural Development, the Dept. of Ecology's Water Quality Program and the Dept. of Health's Drinking Water Division. In addition, it consulted with the affected local governments. The process resulted in coordinated funding for more than a dozen specific projects. The Board also supports the efforts of the IACC to link and coordinate 25-30 funding sources.
<b>Practice 16.</b> Support a formal network and process to collect, share, review, and assess information about program outputs, outcomes, performance measures in the context of systemic environmental quality issues.		Collecting and sharing this information should become easier. How it relates to systemic environmental quality issues may be far more difficult.
<b>5. Work with local governments to streamline and better integrate the project application, selection, implementation, and monitoring process. Develop standard definitions, planning and eligibility requirements, assessment protocols, application forms, evaluation criteria, contracting procedures, and monitoring protocols. Increase the stability and quality of technical assistance and information assistance provided to local governments.</b>	Concur	IACC lists this as one of its highest priorities for 2001. It is focusing its work plan and its conference on moving in this direction. The Board strongly supports the IACC efforts.
<b>6. OFM should coordinate a process for the six audited agencies to deliver annual progress reports to JLARC on the implementation of these recommendations.</b>	Concur	The six audited agencies represent less than one-fourth of the agencies that impact local government infrastructure. I strongly recommend that this be expanded through IACC to include as many as possible.



STATE OF WASHINGTON

OFFICE OF FINANCIAL MANAGEMENT

Insurance Building, PO Box 43113 • Olympia, Washington 98504-3113 • (360) 902-0555

December 15, 2000

Mr. Thomas Sykes, Legislative Auditor  
Joint Legislative Audit and Review Committee  
506 16<sup>th</sup> Avenue SE  
Olympia, Washington 98501-2323

RECEIVED

DEC 19 2000

JLARC

Dear Mr. <sup>Tom</sup> Sykes:

Thank you for the opportunity to comment on the Joint Legislative Audit and Review Committee (JLARC) draft report "Investing in the Environment: Environmental Grant and Loan Programs Performance Audit". The report's emphasis on making environmental grant and loan programs more outcome-focused is consistent with this administration's efforts to improve the quality and results of agency programs through such means as strategic planning, balanced scorecards, performance budgeting, performance measurement, and quality and regulatory improvements. While much has been accomplished, much more work remains to be done, as your report points out.

Consistent with staff comments previously provided to JLARC staff I would like to offer the following comments.

General Comments

1. We generally agree with the goals and desired results articulated in the report. However, we believe the challenge will be achieving the necessary legislative changes, agency program changes, monitoring infrastructure, and funding needed to make these improvements. The report's broad recommendations provide little guidance as to which issues are viewed as the highest priority near-term items to address. Statewide water quality monitoring? Counting salmon in each watershed? Having so many choices may make compliance with the broad recommendations somewhat difficult for agencies. The approach recommended to attain these desired results needs additional specific details and legislative direction.
2. The report notes, but fails to emphasize the lack of quality baseline environmental data necessary to measure the performance of state grant and loan investments, or to manage basic environmental management and protection programs. This lack of information about water quality, streamflows, habitat conditions, salmon recovery trends, etc. has consistently been identified by local watershed and salmon recovery groups, local, tribal, state, and federal governments and others as an impediment to effective natural resources management.





The report should highlight this larger problem, and explain that this concern is much broader than simply monitoring the environmental benefits of state grant and loan programs. The report should also acknowledge that basin wide environmental trends are impacted by a wide range of activities in the basin, and that individual grant or loan investments are only a small component of the factors that will determine the overall health or quality of the environment in any given basin or geographical area.

In an effort to begin to address these broader problems the Governor's Joint Natural Resources Cabinet has created a Salmon Scorecard of performance measures to gauge our progress on salmon recovery. In addition, the Governor's 2001-2003 budget includes additional funding for streamflow monitoring as well as development of a statewide monitoring strategy for salmon recovery.

3. The report should be modified to acknowledge that collecting additional data to measure the environmental returns from grant/loan investments would require a significant investment. This will either require a larger portion of the funding currently available for grants and loans to be utilized for this purpose (i.e. lessen the grant/loan dollars available for award), or require the addition of new resources. We also believe that producing a return on this monitoring investment will require that valid and reliable data be collected over a long period of time (i.e. long-term consistent investments will be needed).
4. The report does not conclude or infer that agencies are not following existing statutory requirements, agency rules or other directives in implementing environmental grant and loan programs. However, the report does call for significant changes to the way environmental grant/loan programs are administered. These recommendations represent a major change in policy direction and financial expenditures. Such changes should occur through specific legislative direction to the agencies. This approach would address the costs to agencies and grant/loan recipients, and provide the necessary statutory modifications and mandates for agencies to thoroughly conduct this analysis/work. This will also provide a formal process for all stakeholders to be involved in decisions about modifying existing funding programs and in addressing the long term funding that will be required.
5. The specific short and long-term actions that will be needed to meet your identified recommendations and results should be clarified. The recommendations will be easier to carry out and implement if additional detail is provided and specific short and long term actions are identified.

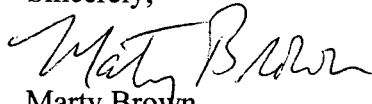
Comments on Specific Recommendations

Rec. 1	Partially Concur	Each agency should continue to work to build internal capacity to report accurate and comprehensive project location and descriptive information. In line with comment # 4 above, we recommend that the broad decision on whether the Department of Transportation is the correct agency to manage a state-wide data base on environmental grant and loan programs, and if/how this system should be expanded and funded, should be considered in the context of legislation designed to address the concerns noted in your report.
Rec. 2	Concur	Having agencies work with funding recipients to develop meaningful and comprehensive output and outcome measures and adaptive management strategies is an important step in measuring environmental outcomes from state grant and loan programs. This will allow these parties to ensure that such measures accurately reflect the expected outcomes from these investments in light of other basin wide environmental factors. It will also provide a basis for securing the financial resources needed to complete this effort.
Rec. 3	Partially Concur	Plans for monitoring environmental conditions and investment performance in the area of water quality and salmon recovery are under way, but more work is needed. These plans should be done in full consultation with all applicable agencies and stakeholders within the context of existing governance structures established to address these issue areas. To be truly effective the measures need to be incorporated into an overall monitoring strategy with multiple objectives, and adequate funding must be provided to ensure such work is completed. In the current recommendation it is unclear if one strategic plan or multiple strategic plans are recommended.
Rec. 4	Partially Concur	Modifying agency grant programs to incorporate key investment practices will likely result in improved environmental grant and loan programs. However, to be effective such changes should be accompanied by implementing legislative direction.
Rec. 5	Concur	To ensure this effort is thoroughly considered and expectations clearly defined, implementing legislation should be enacted.
Rec. 6	Partially Concur	As noted above and discussed with JLARC staff during the drafting of the report, we believe the major changes called for in these recommendations should be based upon adopted legislation. If such legislation is enacted OFM is fully supportive of the six audited agencies delivering annual progress reports to JLARC. However, we do not concur with what appears to be a partial delegation to the executive branch of the JLARC's traditional oversight and follow-up role. OFM is not the appropriate entity to be responsible for following up on the current recommendations contained in the report.

Mr. Thomas Sykes, Legislative Auditor  
December 15, 2000  
Page Four

Thank you again for the opportunity to provide formal written comments. If you have any questions please contact Erik Fairchild at (360) 902-0571.

Sincerely,



Marty Brown  
Director

cc: Jim Cahill, OFM  
Erik Fairchild, OFM  
Doug Vaughn, OFM  
Carol Jolly, Executive Policy Office  
Jennifer Belcher, DNR  
Pete Butkus, PWFB  
Tom Fitzsimmons, DOE  
Laura Johnson, IAC  
Steve Meyer, CC  
Cleve Pinnix, SPRC  
Hedia Adelsman, SSRO



## Auditor's Comments on Agency Responses

We received responses on the report and its six recommendations from each of the agencies included in the audit as well as the Office of Financial Management. All responses indicate either concurrence or partial concurrence with all recommendations. In addition, several agencies have indicated their intention to begin implementing some of the recommendations immediately. We applaud these early efforts to move toward the stronger investment focus recommended throughout the JLARC report.

Some of the responses raise cost and policy issues associated with the report's recommendations to move toward an investment-based system. In some cases, the responses also ask that JLARC provide more specific and detailed directions to agencies on how to implement the recommendations. We address these issues below, first commenting on the overall direction, roles, and responsibilities reflected in the report, and then turning to detailed comments on the agency responses to the recommendations.

### OVERALL COMMENTS

This JLARC report envisions a significant shift in the way the state spends its limited environmental resources, away from distributing and towards investing. We recognize that this shift will take time for both agencies and funding recipients. Accordingly, the report's recommendations lay a foundation for a long-term shift toward strategic investing.

There are some actions that agencies can take (and are taking – see the Department of Natural Resources' response) immediately to implement the recommendations and improve investment practices at little or no additional cost. JLARC's report also asks agencies to provide the Legislature with progress reports highlighting fiscal and other resources necessary to carry out the report's recommendations. Once that information is available, the Legislature will be in a position to weigh the long-term benefits and costs of agencies recommended approaches to strategic investing.

One challenge in particular will be for agencies to begin working collaboratively toward improving the quality and sharing of information that can be used to make strategic investment decisions. While we understand that collaboration *will* take considerable effort, we want to underscore that it is *critical* to strategic investment.

### DETAILED COMMENTS FOR INDIVIDUAL RECOMMENDATIONS

**Recommendation 1 – Continue building and consider expanding the Department of Transportation's (DOT) Uniform Environmental Reporting System (UEPRS).**

Number of agencies concurring	3
Number of agencies partially concurring	4
Number of agencies not concurring	0
Number of agencies with no response	0
TOTAL	7

Contrary to some agency responses, the Legislature and Governor already have made the decision to create (and fund) a DOT-administered UEPRS. JLARC’s recommendation that agencies continue to build internal capacity to report accurate and comprehensive information to UEPRS simply reinforces a law that is already in place. The recommendation that agencies consider options for using UEPRS to coordinate applications for funding is a logical extension of the concept of strategic investing (which demands coordination of projects before funding decisions are made). If, as indicated in some comments, agencies believe that UEPRS should be housed somewhere other than at DOT, these agencies have the option of seeking an alternative location through appropriate legislative and/or executive action.

**Recommendation 2 – Develop meaningful program performance measures.**

Number of agencies concurring	5
Number of agencies partially concurring	2
Number of agencies not concurring	0
Number of agencies with no response	0
TOTAL	7

Some agencies imply that the existing Salmon Recovery Scorecard is the appropriate response to this recommendation. Our report points out that the Scorecard effort is a good start, but that to be useful for program performance measurement, the Scorecard needs to be translated in a way that is directly relevant to the operations, outputs, and outcomes of individual environmental programs. Also, the Scorecard is not applicable, nor relevant, for every program under the audit (e.g., solid waste, recycling, toxic waste cleanup, etc.).

**Recommendation 3 – Develop strategic plans for monitoring water quality and salmon conditions and investment performance.**

Number of agencies concurring	5
Number of agencies partially concurring	2
Number of agencies not concurring	0
Number of agencies with no response	0
TOTAL	7

The rationale the report provides for this recommendation is consistent with the findings of the legislatively-created Independent Science Panel’s recent report Recommendations for Monitoring Salmonid Recovery in Washington State, which states in part:

*Monitoring, when integrated into properly designed and statistically valid experimental designs, can be used . . . to weed out inefficient management actions and waste. This can increase public confidence for political and scientific efforts to recover salmonids; failure to provide accountability can undermine these efforts . . . Without comprehensive monitoring, it is difficult to show that limited fiscal resources are well spent.*<sup>1</sup>

Agency responses to the audit indicated concerns with the costs associated with implementing this recommendation. Here, it is important to note that the recommendation does not dictate how monitoring should be done. Implementing the recommendation may mean, however, that current

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<sup>1</sup> Report 2000-2, Independent Science Panel, (<http://www.governor.wa.gov/esa/science/documents.htm>)

resources associated with measuring “process and distribution activities” would be shifted to output and outcome monitoring that is useful for designing and evaluating the impacts of environmental investments. Along these lines, the recommendation asks that agencies collaboratively prepare strategic plans that include analyses of the costs and benefits of alternative approaches for strategic monitoring for investment purposes. Again, quoting the Independent Science Panel:

*Cost will depend on a number of factors, including the ability of existing institutions to find efficiencies in coordinating their efforts and the importance decision-makers place on risk of uncertainty and accountability to the public.*

Of final note, we have modified Recommendation 3 in the proposed final report to clarify that the recommendation is for collaborative development of two separate, but coordinated, strategic plans: one for monitoring water quality, and one for monitoring salmon recovery.

#### **Recommendation 4 – Implement investment practices.**

Number of agencies concurring	2
Number of agencies partially concurring	4
Number of agencies not concurring	0
Number of agencies with no response	1*
TOTAL RESPONSES	7

\* The Public Works Board did not formally indicate concurrence or non-concurrence with this recommendation.

Some agencies have expressed concern that the report did not do enough to “operationalize” implementation of the report’s recommendations, particularly in the area of investment practices. The recommendation language clearly anticipates that program operations and structures will have to change in order fully integrate all of the identified practices. However, some of the practices, including the critical practices #5 through #9 in the Selection phase of the investment model (particularly #9 – employment of a minimum threshold score), could be integrated into many programs at little or no additional cost.

#### **Recommendation 5 – Streamline and integrate services.**

Number of agencies concurring	5
Number of agencies partially concurring	2
Number of agencies not concurring	0
Number of agencies with no response	0
TOTAL RESPONSES	7

Agencies expressed strong concurrence with this recommendation, acknowledging, as did the recommendation itself, that some statutory or budgetary changes may be necessary in the future to facilitate full implementation.

**Recommendation 6 – Provide annual progress reports to JLARC on implementation of the recommendations, coordinated by OFM.**

Number of agencies concurring	2
Number of agencies partially concurring	3
Number of agencies not concurring	0
Number of agencies with no response	2*
TOTAL RESPONSES	7

\* The Department of Ecology and the Interagency Committee for Outdoor Recreation deferred their responses on this recommendation to OFM.

The Office of Financial Management (OFM) expressed concern that, through this recommendation, JLARC was inappropriately delegating its oversight function to the executive branch. Here, it is important to clarify that JLARC will, as it always has, conduct its own follow-up responsibilities and ensure that agencies subject to this review are attentive to implementing the substance of these recommendations. However, as expressed in the overall comments earlier, one of the key points our report makes is that agencies need to work collaboratively toward implementing many of the recommendations. If OFM, the coordinator of many joint executive branch activities related to both the state budget as well as environmental policy, believes that another agency or group within the executive branch is more appropriate to *facilitate* annual progress reports by the audited agencies, the coordination task should be delegated appropriately.

In closing, we appreciate agencies' thoughtful responses to this report, and hope that these comments provide the additional clarity that has been requested. We look forward to continuing to work with agencies in follow-up activities to Investing in the Environment issues.



## APPENDIX 3: LOAN PROGRAM DETAIL

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Only two of the 12 programs under this audit issue loans—the Public Works Trust Fund and the Department of Ecology’s Water Quality Financial Assistance Program. (The Water Quality Financial Assistance Program issues both grants and loans.) This appendix provides additional information about the loans issued by these two programs, including a comparison of the amount of funding collectively issued by all programs in the form of grants and loans.

### Fewer But Larger Loans

Exhibit A3.1 below shows the total number and average size of the grants and loans made by all 12 programs over the past five years (fiscal years 1996-2000). Compared to the number and average size of grants, the programs issued fewer but significantly larger loans. For this reason, though loans account for just 15 percent of the number of projects funded, they represent 47 percent of the total funding allocated.<sup>2</sup>

**Exhibit A3.1**  
**Grants and Loans Awarded Between**  
**Fiscal Year 1996 and Fiscal Year 2000**

Funding Type	Number of Projects Funded	Average Award	Total Project Funds Awarded
Grant	1,685	\$263,453	\$443,918,938
Loan	293	\$1,340,670	\$392,816,206

Source: Agency information reported to JLARC.

### Below-Market Interest Rates

Because the loans will be repaid, the actual funding assistance provided by the loans occurs in the form of their low interest rates. Below-market interest rates represent a sizable state subsidy for environmental projects.<sup>3</sup> It is possible to translate the loan subsidies into grant equivalents by adjusting the loan amounts to account for both the low interest rates and the repayments that will eventually return to the state. The \$392.8 million distributed by the programs in low interest loans is equivalent to “grants” of \$107.3 million.<sup>4</sup> Using this adjusted figure rather than their nominal “face value”, loans represent a much smaller proportion of the total project funds distributed by the programs over the past five years. This difference is shown in Exhibit A3.2 on the following page.

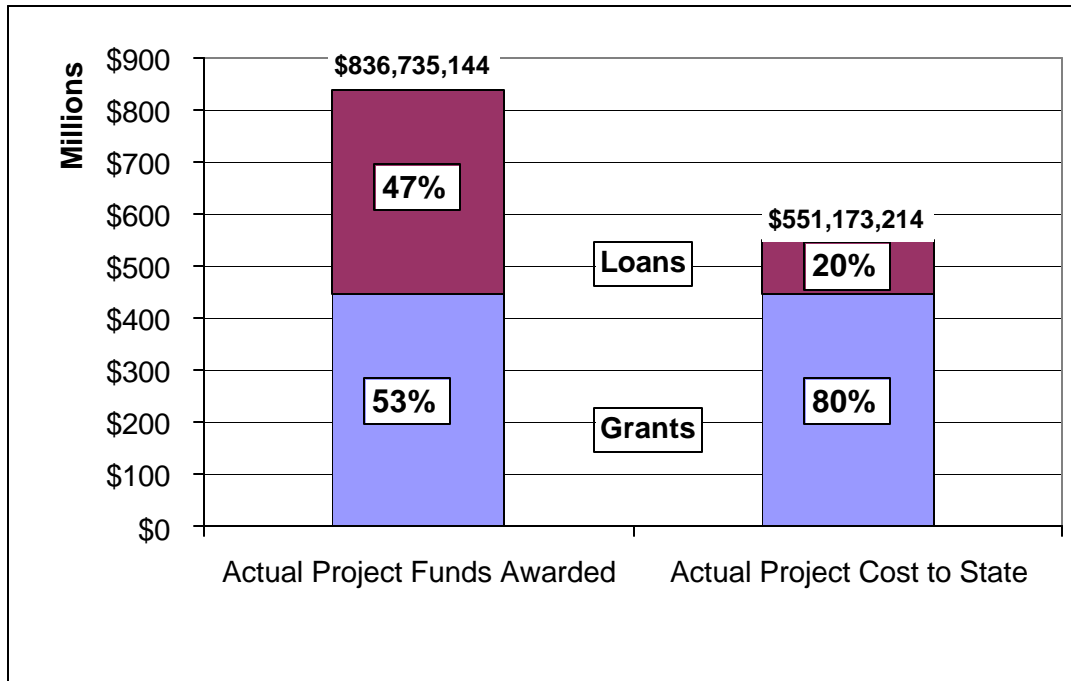
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<sup>2</sup> Ninety-seven percent of these loans (\$380.7 million) are devoted to water quality projects—primarily installation or construction of sewage collection systems, stormwater control systems, and wastewater treatment plants.

<sup>3</sup> The loan programs charge low or no interest. During the last five years, rates have varied from 0 to 3.2 percent. Both programs recently reduced their interest rates. In the current biennium, the average interest rates are 1.0 percent for the Public Works Board and 0.4 percent for Ecology.

<sup>4</sup> To calculate the “grant equivalent” we used an average 20-year term, weighted average interest rates provided by the agencies, and a discount rate equal to the state’s average rate of borrowing (5.2 percent).

**Exhibit A3.2**  
**Grant and Loan Funding Distributions**  
**Funds Awarded versus Actual Costs to the State**



Source: Agency information reported to JLARC.

# APPENDIX 4: NOTES ABOUT 1999-01 BUDGETS OF AUDITED PROGRAMS

This appendix provides detailed notes on the 1999-01 program budget figures portrayed in Exhibit 1.1.

## 1999-01 Budgets for the Audited Programs (from Exhibit 1.1)

Agency	Program	Total 1999-01 Budget
State Conservation Commission	Conservation Reserve Enhancement Program	\$6,417,595
State Conservation Commission	Dairy Nutrient Management Grants Program	\$5,408,546
State Conservation Commission	Water Quality Grants Program	\$5,194,000
Department of Ecology	Coordinated Prevention Grants Program	\$17,669,684
Department of Ecology	Public Participation Grants Program	\$896,538
Department of Ecology	Remedial Action Grants Program	\$25,347,203
Department of Ecology	Water Quality Financial Assistance Program	\$173,883,259
Department of Natural Resources	Aquatic Lands Enhancement Grants Program	\$5,087,600
Interagency Committee for Outdoor Recreation	WA Wildlife and Recreation Program (habitat portion)	\$25,561,000
IAC / Salmon Recovery Funding Board	Salmon Recovery Grants Program	\$92,657,752
Public Works Board / CTED	Public Works Trust Fund Program (systems of interest)	\$80,900,000
State Parks and Recreation Commission	Statewide Boat Pumpout Grants Program	\$996,000
	<b>TOTAL</b>	<b>\$440,019,177</b>

Source: Agency information reported to JLARC.

### Notes:

- 1) Budget figures include 2000 Supplemental Budget revisions but do not include any reappropriations unless specifically noted below.
- 2) Budget figures include both project and administrative costs. Administrative costs vary from 0.5 percent to 14.5 percent of total budgets. Though audit staff did not analyze administrative costs in detail, varying levels of technical assistance provided by the programs, as well as economies of scale, likely contribute to these variations.
- 3) Though the vast majority of funding for the audited programs originates in the capital budget, administrative costs for some of the audited programs are funded through appropriations in the operating budget.
- 4) **Conservation Reserve Enhancement Program:** This amount includes \$4,417,595 in reappropriated funding not allocated to projects during the 1997-99 Biennium.
- 5) **Public Participation Grants Program:** This amount includes \$342,000 in project funding from the State Toxics Control Account appropriated in the operating budget but administered as part of the PPG program.

- 6) **Water Quality Financial Assistance Program (Ecology):** This amount includes state (\$118.8 million) and federal (\$50.3 million) capital budget appropriations, as well as federal funds (\$4.7 million) appropriated in the operating budget and allocated to the programs.
- 7) **Salmon Recovery Funding Board:** This amount includes appropriated state funds (\$37.6 million), federal salmon recovery funding received to date (\$18 million), IAC's estimate of additional federal salmon recovery funding that will be made available to the state during the 1999-01 biennium (\$17.3 million), and federal funding appropriated to the Governor's Salmon Recovery Office in the 1997-99 Biennium (\$19.6 million) that was subsequently transferred to the SRFB in the 1999-01 Biennium.
- 8) **Public Works Board:** The total appropriation for this program is \$205.5 million. The amount indicated represents an estimate of the amount that will be allocated to stormwater, wastewater, and solid waste projects in the 1999-01 Biennium (approximately 40 percent of total appropriations based on historical averages).
- 9) **Grand Total:** Of this total, \$329.2 million are state funds (75 percent) and \$110.8 million are federal funds (25 percent).

## APPENDIX 5: KEY EVENTS IN THE HISTORY OF THE AUDITED PROGRAMS

Year	Event
1939	The Legislature authorizes the establishment of Conservation Districts and creates the State Conservation Commission to assist districts in carrying out resource conservation programs.
1964	Congress creates the Land and Water Conservation Fund (LWCF) for outdoor recreation and conservation grants to states. Over the course of the next 35 years, Washington will receive \$60 million from this federal funding source. Most funds are administered by the IAC.
1964	Washington citizen initiative (I-215) creates the Interagency Committee for Outdoor Recreation (IAC) to administer marine recreation and LWCF grant programs.
1968	Washington voters approve Referendum 18, issuing \$40 million in general obligation bonds for outdoor recreation and open space grants. Grants are administered by the IAC.
1971	Legislature creates the Department of Ecology.
1972	Congress passes the federal Clean Water Act and initiates the federal Construction Grants Program for water pollution control facilities. Grants provide up to 75 percent of the eligible costs of facility construction, including 20 years' growth capacity. Administrative authority is delegated to the Department of Ecology.
1972	Washington voters approve Referendum 26, issuing \$225 million in general obligation bonds for pollution control facilities and to raise 15 percent matching funds for the federal Construction Grants Program. Grants are administered by the Department of Ecology.
1973	Congress passes the federal Endangered Species Act.
1980	Washington voters approve Referendum 39, issuing \$450 million in general obligation bonds to raise funds for pollution control facility grants to local governments. Grants, administered by Ecology provide up to 50 percent of eligible costs with capacity limited to 110 percent of existing need. Remaining Referendum 26 grants are administered with similar requirements.
1984	Congress reduces the federal cost share in the Construction Grants Program from 75 percent to 55 percent, and reduces eligibility to existing need only (no growth).
1984	Legislature creates the Aquatic Lands Enhancement Account (ALEA) within the Department of Natural Resources to provide a new funding source for grants for the purchase, improvement, or protection of aquatic lands. Revenues come primarily from aquatic leases and geoduck sales.
1985	Legislature creates the Public Works Trust Fund Program and the Public Works Assistance Account (primarily funded by utility taxes) to provide low cost loans to local governments for basic infrastructure projects (including wastewater treatment facilities).
1986	Legislature creates the Water Quality Account, funded by tobacco taxes and the general fund, to provide a financing source for grants and loans to local governments for water pollution control facilities and activities. Grants are administered by the Department of Ecology. Legislature specifies the following funding distribution: 50 percent for marine waters; 20 percent for sole source aquifers; 10 percent for freshwater lakes and rivers; 10 percent for nonpoint source pollution; and 10 percent unspecified. Funding for water pollution control facilities is limited to 110 percent of existing need at the time of application.

Year	Event
1987	Congress begins a phased elimination of the federal Construction Grants Program, replacing it with two new programs: the Clean Water Act Section 319 Program (federal grants for nonpoint source pollution control); and the State Revolving Fund (federally-capitalized low interest loans for water pollution control projects and activities). SRF loans may fund up to 20 years capacity for growth.
1987	The Legislature amends Water Quality Account statutes to reserve 2.5 percent of biennial appropriations for Conservation Commission grants to Conservation Districts.
1988	Washington voters approve Initiative 97, which creates a new funding source (the Local Toxics Control Account) for grants and loans to local governments for hazardous site cleanup and hazardous and solid waste planning and activities. The account is funded by a portion of a wholesale tax on the first possession of hazardous substances within the state.
1989	Legislature creates the Boat Pumpout Grant Program within the State Parks and Recreation Commission using funds from watercraft excise taxes.
1989	Legislature creates the Solid Waste Management Account (SWMA), funded by a tax on garbage collection, to provide funding for state and local government solid waste management activities. Grants are administered by the Department of Ecology.
1990	Legislature creates the Washington Wildlife and Recreation Program (WWRP) to provide grants to state agencies and local governments to acquire wildlife conservation and outdoor recreation lands. Grants are administered by the IAC.
1991	Ecology consolidates Referendum 26, Referendum 39, Local Toxics Control Account, and SWMA solid waste grants into one program – the Coordinated Prevention Grants program. After the SWMA and the two Referenda funds expire in the late 1990s, only Local Toxics funding remains for the program.
1993	Legislature appropriates \$3 million from the Water Quality Account to the Conservation Commission for the first series of dairy waste management grants.
1994	Congress passes the Clean Vessel Act, which begins to provide federal funding to the State Parks and Recreation Commission for boat sewage disposal systems.
1995	The statutory distribution formula guiding Department of Ecology and Conservation Commission water quality grants sunsets. Future distributions are guided by budget proviso.
1998	DNR revises the Aquatic Lands Enhancement Account (ALEA) grant program to shift priorities to natural resource protection and restoration.
1998	The Conservation Reserve Enhancement Program is created as a partnership between the State Conservation Commission and the US Department of Agriculture to restore riparian areas on agricultural lands.
1998	Ecology consolidates its three remaining water quality grant and loan programs (Centennial, SRF, and Section 319 Nonpoint) into one – the Water Quality Financial Assistance Program.
1999	Legislature creates the Salmon Recovery Funding Board to administer a new Salmon Recovery Grants Program. The Board receives administrative services from the staff of the IAC.

## APPENDIX 6: MAJOR DEDICATED ACCOUNTS USED BY THE AUDITED PROGRAMS

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Account Name	Revenue Source(s)	Estimated Revenue (in millions)			Audited Programs Receiving Funding
		1999-01	2001-03	2003-05	
Aquatic Lands Enhancement Account	Proceeds from the sale or lease of state-owned aquatic lands, and the sale of materials from such lands.	\$16.8	\$19.1	\$20.6	Aquatic Lands Enhancement Grants Program
Local Toxics Control Account	Portion of the state hazardous substance tax (wholesale tax on first possession of hazardous substances in the state).	\$51.9	\$40.4	\$40.4	Coordinated Prevention Grants, Public Participation Grants, and Remedial Action Grants Programs, all within the Department of Ecology
Public Works Assistance Account	Loan repayments, real estate excise tax revenue, utility tax surcharges, and refuse collection charges.	\$219.4	\$238.0	\$266.7	Public Works Trust Fund Program
Salmon Recovery Account	One-time transfers from the state general fund, the aquatic lands enhancement account, the water quality account, the resource management cost account; and one-time revenue from state tobacco and cigarette taxes.	\$48.9	<i>No on-going revenue sources for this account have been created</i>		Salmon Recovery Grants Program
Water Pollution Control Revolving Fund	Federal capitalization grants, state matching funds from the water quality account, and loan repayments.	\$109.0	\$121.7	\$114.9	Water Quality Financial Assistance Program within the Department of Ecology
Water Quality Account	Cigarette and tobacco tax and the state general fund.	\$67.5	\$73.1	\$75.8	Water Quality Financial Assistance Program within the Department of Ecology and the Water Quality Grants and Dairy Waste Management Grants Programs within the Conservation Commission

Source: JLARC, using revenue projections provided by agencies.





## APPENDIX 7: CONSTRUCTING A CONTEXT FOR THE AUDITED PROGRAMS' BUDGETS

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There is no easy way to precisely summarize the amount of state funds dedicated to environmental quality. Programs and activities directed toward environmental quality reside within many agencies across state government. In some cases, it can be debated whether specific programs contribute to environmental quality (e.g., Are state parks operated for environmental quality purposes, for recreation purposes, or both? Are funds spent on mitigation for facility or road construction environmental quality expenditures? etc.).

Notwithstanding these difficulties, a rough approximation of overall budget resources dedicated to environmental quality can be made by examining funds allocated to agencies falling under the “natural resources functional area” of state government. By definition, the natural resources functional area contains a significant portion of state programs and activities designed to address environmental quality issues. With the exception of the Public Works Trust Fund Program, all of the audited programs reside within the natural resources functional area of the state budget.

Listed below are the total 1999-01 operating, capital, and transportation budget appropriations to agencies included in the natural resources functional area.

### 1999-01 Natural Resource Functional Area Appropriations (\$ in thousands)

Agency	Operating Budget	Capital Budget (new approps)	Transportation Budget	Total
Columbia River Gorge Commission	\$1,354	\$0	\$0	\$1,354
Department of Agriculture	\$81,839	\$0	\$311	\$82,150
Department of Ecology	\$278,985	\$217,156	\$0	\$496,141
Department of Fish and Wildlife	\$275,992	\$26,653	\$0	\$302,645
Department of Natural Resources	\$250,467	\$102,615	\$0	\$353,082
Environmental Hearings Office	\$1,612	\$0	\$0	\$1,612
Interagency Committee for Outdoor Recreation/Salmon Recovery Funding Board	\$6,626	\$137,959 <sup>5</sup>	\$0	\$144,585
State Conservation Commission	\$9,326	\$10,500	\$0	\$19,826
State Parks and Recreation Commission	\$89,360	\$27,898	\$3,549	\$120,807
WA Pollution Liability Insurance Program	\$2,094	\$0	\$0	\$2,094
<b>TOTAL</b>	<b>\$997,655</b>	<b>\$522,781</b>	<b>\$3,860</b>	<b>\$1,524,296</b>

Source: 1999-01 Legislative Budget Notes.

The budgets for the audited programs (\$440 million) represent **29 percent** of this total.

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<sup>5</sup> Reflects the \$36 million of federal salmon recovery funds that are currently expected to be received by the state during the biennium, rather than the \$82.5 million appropriated in the original budget.



## APPENDIX 8: SUMMARY OF ENVIRONMENTAL QUALITY GRANT AND LOAN PROGRAMS FUNDED IN THE OPERATING AND TRANSPORTATION BUDGETS

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See Following Pages.



**Summary of Environmental Quality Grant and Loan Programs Funded in the Operating and Transportation Budgets**

Agency	Program	Year Created	Purpose	Eligible Applicants	1999-01 Budget	Type of Projects Funded	Distribution Method
Conservation Commission	Engineering Grants	1999	Hire professional engineers to provide technical assistance and oversight for projects involving salmon restoration, water quality protection, and dairy waste management.	Conservation Districts	\$1,800,000	Hiring of professional engineers	Shared by districts
Department of Community, Trade, and Economic Development	Growth Management Planning Grants	1990	Fund planning for growth and development under the GMA.	Cities, counties, and towns	\$4,896,286	Any planning activity that supports the GMA	Competitive (with a reserve for new cities)
Department of Community, Trade, and Economic Development	Riparian Easement Grants	2000	Preserve and restore riparian, estuarine, and marine areas.	Cities and counties	\$5,000,000	Leasing, purchasing, and restoring riparian lands	Targeted to individual counties by program staff
Puget Sound Action Team	Public Involvement and Education Grants	1987	Protect the Puget Sound.	Any Washington State resident or business, and most local public and private organizations.	\$700,000	Public education and involvement projects that protect and restore water quality and biological resources in the Puget Sound basin.	Competitive
Department of Ecology	Flood Control Assistance Grants	1984	Assist local governments in reducing flood hazards and damages.	Counties, cities, tribes, and special purpose districts	\$3,989,000	Plans, projects, and studies that mitigate potential for flood damages.	Competitive
Department of Ecology	Coastal Zone Management Grants	1976	Fund the development and implementation of the State's coastal zone management program.	Cities, counties, tribes, and state agencies	\$1,010,000	Planning and small construction and acquisition projects	Competitive
Department of Ecology	Aquatic Weeds Management Grants	1991	Provide grants to prevent, remove, reduce, or manage excessive aquatic weeds in public waters.	Cities, counties, tribes, special purpose districts, and state agencies	\$1,065,674	Planning, implementation, and education projects	Competitive

INVESTING IN THE ENVIRONMENT: ENVIRONMENTAL QUALITY GRANT & LOAN PROGRAMS

Agency	Program	Year Created	Purpose	Eligible Applicants	1999-01 Budget	Type of Projects Funded	Distribution Method
Department of Ecology	Watershed Planning Grants	1998	Provide local citizens input into water resource management and development plans.	Watershed planning lead agencies (counties, conservation districts, boards, tribes, and health districts).	\$9,272,000	Developing watershed plans	Competitive
Department of Ecology	Community Litter Cleanup Grants	1998	Assist local governments for litter cleanup activities.	Counties, Seattle, and Everett	\$2,705,885	Removing litter and illegal dumps from roadsides and public places	Evenly split between all counties and Seattle and Everett
Department of Fish and Wildlife	Regional Fisheries Enhancement Group Grants	1990	To include citizens in salmon enhancement efforts.	Regional fisheries enhancement groups (regional non-profits)	\$2,528,547	Habitat improvement, salmon production, educational outreach, or scientific research projects	Competitive
Department of Fish and Wildlife	Salmon Lead Entity Administration Grants	1998	Establish and fund lead entities statewide to facilitate the identification and prioritization of habitat projects at the watershed level.	Lead entities (cities, counties, conservation districts, and non-profits)	\$2,670,000	Forming a citizen committee and administering process of identifying and prioritizing salmon projects	Competitive
Department of Fish and Wildlife	Volunteer Cooperative Fish and Wildlife Enhancement Program	1984	Provide funding and assistance for activities beneficial to fish and wildlife.	Any organization or individual.	\$2,000,000	Habitat restoration, facility construction, assessment and monitoring, education, research, and community involvement	Competitive
Department of Transportation	City Fish Passage, Habitat Restoration, and Stormwater Grant Program	2000	Eliminate barriers, improve stormwater facilities, and provide for habitat restoration for threatened salmonids.	Cities only.	\$2,000,000	Fish passage barrier correction and habitat restoration projects	Competitive
<b>Total</b>					<b>\$39,637,392</b>		

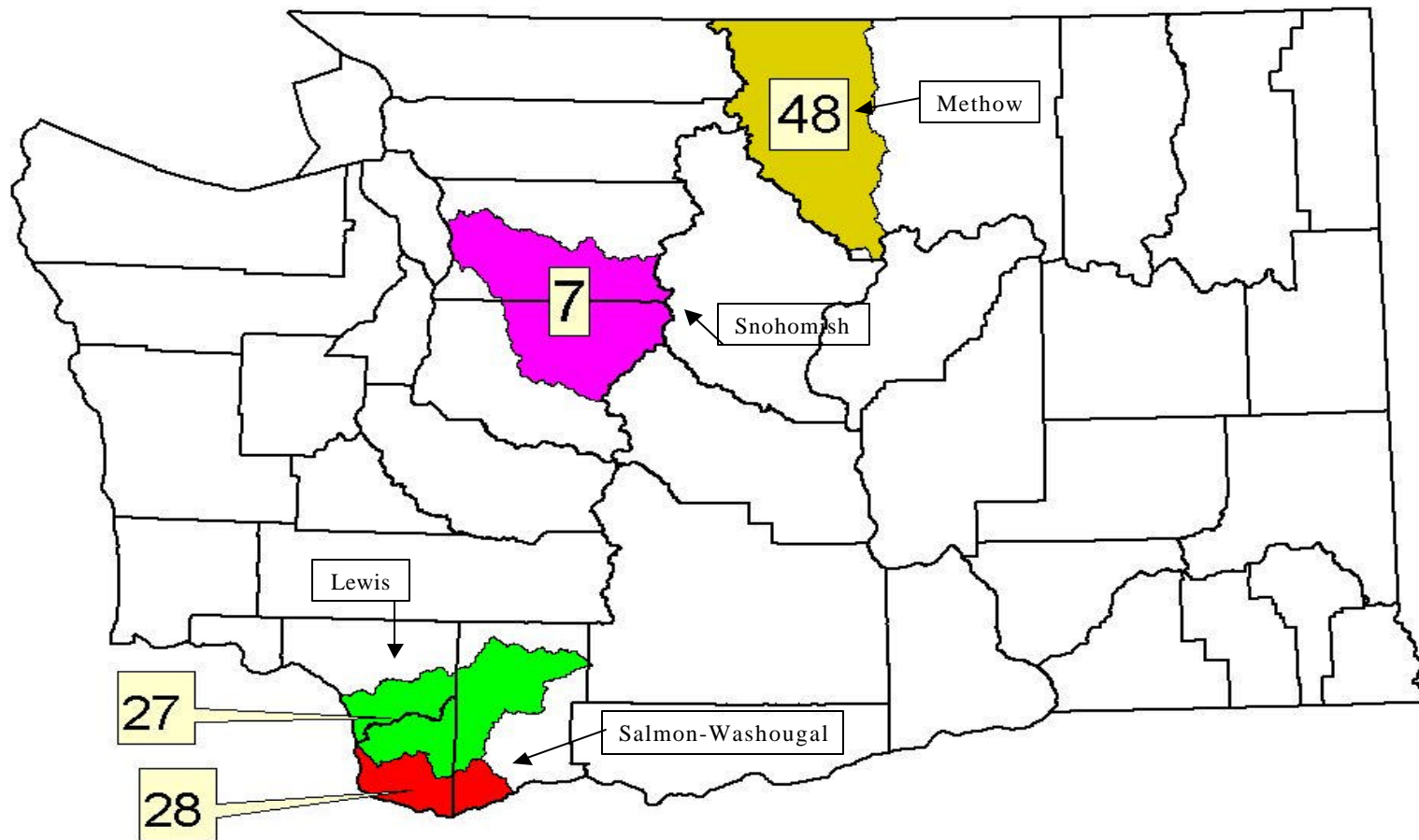
Source: Agency information reported to JLARC.

## APPENDIX 9: CASE STUDY WATERSHEDS

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See Following Page.

## Case Study Watersheds



Note: Numbers indicate Watershed Resource Inventory Area (WRIA) designations.  
Source: ILARC.



## APPENDIX 10: CASE STUDY DETAIL DATA

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See following page.

## Funded Projects Reported for Three Case Study Regions,\* 1996-2000, By Program

Primary Program Budget Source	Agency	Program	Number of Funded Projects Reported	Amount of Funding Allocated	Number of Funded Projects Mappable **	Percent of Funded Projects Mappable
<b>Capital Budget (Programs Included in the Audit)</b>	Conservation Commission	Conservation Reserve Enhancement Program	12	\$3,326,180	0	0%
	Conservation Commission	Dairy Waste Management Grants Program	5	\$679,235	0	0%
	Conservation Commission	Water Quality Grants Program	21	\$1,749,103	0	0%
	Department of Natural Resources	Aquatic Lands Enhancement Account Program	14	\$4,002,957	8	57%
	Public Works Board (CTED)	Public Works Trust Fund (systems of interest)	11	\$16,989,666	11	100%
	Department of Ecology	Local Toxics Coordinated Prevention Grants Program	51	\$13,427,093	51	100%
	Department of Ecology	Local Toxics Public Participation Grants Program	3	\$108,285	1	33%
	Department of Ecology	Local Toxics Remedial Action Grants Program	28	\$13,261,262	11	39%
	Department of Ecology	Water Quality Financial Assistance Program	61	\$95,780,993	0	0%
	Interagency Comm for Outdoor Rec (IAC)	Washington Wildlife and Recreation Program (habitat portion)	9	\$17,153,257	9	100%
	Salmon Recovery Funding Board (IAC)	Salmon Recovery Grants Program	53	\$6,804,787	50	94%
	State Parks and Recreation Commission	Statewide Boat Pumpout Grants Program	1	\$14,400	1	100%
	<b>Subtotal</b>		<b>269</b>	<b>\$173,297,218</b>	<b>142</b>	<b>53%</b>
<b>Capital Budget (Other Programs)</b>	Department of Natural Resources	Jobs for the Environment ***	12	\$1,963,913	9	75%
	Department of Ecology	Referendum 38 Water Supply Grants ****	2	\$697,404	0	0%
	<b>Subtotal</b>		<b>14</b>	<b>\$2,661,317</b>	<b>9</b>	<b>64%</b>
<b>Operating Budget</b>	Conservation Commission	Engineering Grants to Conservation Districts	3	\$292,992	0	0%
	Dept Community, Trade, Econ Dvlp (CTED)	Growth Management Planning Grants	18	\$1,336,493	18	100%
	Department of Ecology	Aquatic Weeds Management Program	9	\$548,963	0	0%
	Department of Ecology	Coastal Zone Management Grants	18	\$293,025	0	0%
	Department of Ecology	Community Cleanup Litter Program Grants	20	\$780,837	20	100%
	Department of Ecology	Flood Control Assistance Grants	24	\$1,479,042	0	0%
	Department of Ecology	Watershed Planning Grants	2	\$1,299,999	0	0%
	Department of Fish and Wildlife	Regional Fisheries Enhancement Group Grants	143	\$2,098,621	36	25%
	Department of Fish and Wildlife	Salmon Lead Entity Administration Grants	8	\$636,268	3	38%
	Department of Fish and Wildlife	Volunteer Cooperative Fish and Wildlife Grants	33	\$647,725	16	48%
	Puget Sound Water Quality Action Team	Public Involvement and Educational (PIE) Grants	10	\$230,809	10	100%
	<b>Subtotal</b>		<b>288</b>	<b>\$9,644,774</b>	<b>103</b>	<b>36%</b>
<b>Transportation Budget</b>	Department of Transportation	Fish Passage Barrier Removal Grant Program	12	\$506,845	12	100%
	<b>Subtotal</b>		<b>12</b>	<b>\$506,845</b>	<b>12</b>	<b>100%</b>
	<b>GRAND TOTAL</b>		<b>583</b>	<b>\$186,110,154</b>	<b>266</b>	<b>46%</b>

\* Case study regions include the Methow River Watershed, Snohomish River Watershed, and two watersheds along the Lower Columbia River

\*\* WSDOT's and JLARC's determination of projects that were mappable, based on our interpretation of information provided by agencies.

\*\*\* The Jobs for the Environment Program has historically received funding directly from the Capital Budget. In the 1999-01 Biennium, the program is receiving capital budget funding indirectly through a grant made by the Salmon Recovery Funding Board. The JFE Program was audited separately by JLARC in 1998.

\*\*\*\* The Referendum 38 Water Supply Grants Program was not included in the audit because it does not focus primarily on environmental quality projects.

NOTE: Maps displaying the locations of mappable funded projects within each watershed are available upon request.

# APPENDIX 11: GRANT AND LOAN PROGRAMS IN OTHER STATES

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## METHODOLOGY

In order to learn about environmental grant and loan programs in other states, we selected Alaska, California, Florida, Idaho, Maryland, and Oregon. The reasons for selecting these states include one or more of the following:

- The state shares a border with Washington.
- The state has a complex set of environmental issues (in particular, water quality).
- The state is known for recent, major environmental quality initiatives.

We obtained information about these six states by contacting legislative and other appropriate environmental agency staff within each state, reviewing grant and loan program documents and related audit/evaluation reports from the six states, and reviewing the contents of the environmental agency websites.

It should be noted that we did not audit the grant and loan programs of these states. Time constraints did not allow us to review these programs in great detail, including the effectiveness and the comparability of these programs with similar programs in Washington. Overall, the review of environmental grant and loan programs in the six states does provide useful information for both policy analysis and program implementation.

## OTHER STATES REPORT A WIDE VARIETY OF GRANT AND LOAN PROGRAMS

The grant and loan programs in the six states that were reviewed are attempting to address both **traditional** and **systemic** environmental issues. Examples of these issues include: sewage treatment, toxic/hazardous substance cleanup, recycling, water quality improvement, watershed management, endangered species recovery, and habitat conservation.

The funding levels for these programs range from a few hundred thousand dollars to several billion dollars. These programs use several different methods for providing funds to selected projects, including full and matching grants as well as revolving and other types of loans.

The following are brief descriptions of four recent, notable efforts in these states:

**California Parks and Water Bonds.** In March 2000, California voters approved two bond measures totaling \$4.1 billion to be used for improving environmental quality. The parks bond (\$2.1 billion) will provide funds for land acquisitions, park development, preservation, and restoration. The water bond (\$2.0 billion) will provide funds for a number of existing programs, such as wastewater treatment plant construction and safe drinking water activities.

A total of \$2.3 billion from these bond measures will be used to provide grants and loans to local jurisdictions and nonprofit agencies. Eight state departments are involved in the allocation of these grants and loans. Because both bond measures provide only general guidelines for the use of funds, the California Legislative Analyst's Office has made a number of recommendations to its Legislature including the following:

- Establish clear criteria to facilitate the efficient evaluation of loan and grant applications and to ensure that the most appropriate projects are funded.
- Designate a lead agency for each bond measure to coordinate decision-making and other administrative functions.
- Define and monitor administrative costs charged to bonds.

**Florida Everglades Project.** In October 2000, the U.S. House of Representatives passed legislation that authorizes funding for a multi-year restoration project for the Florida Everglades. The project will cost an estimated \$7.8 billion; the federal and Florida State governments will share the cost equally.

The goals of the restoration project include restoring natural hydrology, enhancement and recovery of native habitats and species, and revitalization of urban core areas. Coordination of activities is seen as a necessity for the success of the restoration project since it currently includes federal and state agencies, American Indian tribes, counties and municipal governments, industry and private sectors, and special interest groups.

**Maryland's Water Quality Improvement Act of 1998.** This is a comprehensive bill that focuses on improving water quality throughout the state. The bill provides for a variety of measures including the establishment of the Animal Waste Technology Fund and mandatory participation in nitrogen and phosphorus based nutrient management plans. For the current fiscal year 2001, Maryland budgeted \$22.2 million for nutrient management-related grant and loan programs.

**Oregon Watershed Enhancement Board.** Oregon voters approved Ballot Measure 66 in 1998, which dedicates 15 percent of net lottery proceeds to state parks and salmon, watershed, and habitat restoration. For the 1999-01 Biennium, the state's revenue forecast estimated \$86.9 million in lottery revenues for these purposes. The Oregon Watershed Enhancement Board is responsible for the administration of salmon and watershed funds emanating from the lottery revenues. The board funds a wide variety of projects. Grants are awarded for watershed restoration, enhancement, assessment, and monitoring; land and water acquisition; and watershed education and outreach.

For the 1999-01 biennium, the Oregon Legislature appropriated \$39.4 million to the board—approximately 82 percent (\$32.2 million) of this amount came from lottery funds.

## PROGRAM FEATURES IN OTHER STATES ARE CONSISTENT WITH THE JLARC INVESTMENT MODEL

Our review of other states' environmental grant and loan programs show that they employ many of the same features that we have recommended in the investment process model described in Chapter 3. These features include requiring grant and loan applicants to provide baseline information about projects' underlying environment conditions, measurable objectives, cost-effectiveness, alternatives based on best available science, implementation plans and schedules, coordination with stakeholders, monitoring plans, and measurable outputs and outcomes.

Exhibit 11A.1 on the following page lists the programs we reviewed from other states. The exhibit describes major aspects of the eligibility/prioritization/selection criteria used for awarding grants and loans to environmental projects. These criteria focus on prioritizing projects, maximizing environmental benefits, considering costs, coordinating resources and efforts, setting measurable objectives, and measuring performance.

As discussed under our investment process model, incorporation of these criteria into the project eligibility/prioritization/selection process of Washington's environmental grant and loan programs will improve the likelihood of achieving desired investment results. Furthermore, implementation of these criteria will provide a framework and necessary data for making assessments of the program's short- and long-term investment performance.

**Exhibit 11A.1**  
**Examples of Other States' Grant and Loan Programs and Their**  
**Criteria for Selecting and Funding Environmental Projects<sup>6</sup>**

Program	Eligibility/Prioritization/Selection Criteria	Contact Information
<b>Alaska</b>		
Clean Water Revolving Loan Fund  Drinking Water Revolving Loan Fund	Project selection criteria include: operation, maintenance, and management capabilities; relationship to other project priorities; project cost to population benefiting ratio; and economic development.	Alaska Department of Environmental Conservation  Division of Facility Construction and Operation  Phone: (907) 269-7516  <a href="http://www.state.ak.us/local/akpages/ENV.CONSERV/dfco/dec_dfco.htm">http://www.state.ak.us/local/akpages/ENV.CONSERV/dfco/dec_dfco.htm</a>
Non-point Source Pollution Grants	Application requirements include: clearly demonstrated project need, multi-organizational partnerships agreements, and existence of a long-range plan.	Alaska Department of Environmental Conservation  Division of Air and Water Quality  Phone: (907) 269-7686  <a href="http://www.state.ak.us/local/akpages/ENV.CONSERV/dawq/nps/apphandbk.htm">http://www.state.ak.us/local/akpages/ENV.CONSERV/dawq/nps/apphandbk.htm</a>
<b>California</b>		
State Revolving Loan Fund for Water Quality	Eligibility requirements include presenting cost-effective alternatives.	California State Water Resources Control Board  Division of Water Quality (Non-point Source Program)  Phone: (916) 341-5500  <a href="http://www.swrcb.ca.gov/nps/grants.html">http://www.swrcb.ca.gov/nps/grants.html</a>

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<sup>6</sup> This exhibit attempts to provide only a flavor of grant and loan programs in the six states reviewed. By no means does the list include all programs comparable to those under the audit. Programs were selected on the basis of the following criteria: similarity to Washington's programs reviewed in the audit; programs with readily available eligibility, priority, and selection criteria for projects; and/or programs with large and/or well-publicized budget appropriations.

INVESTING IN THE ENVIRONMENT: ENVIRONMENTAL QUALITY GRANT & LOAN PROGRAMS

Program	Eligibility/Prioritization/Selection Criteria	Contact Information
Non-point Source Implementation Grant	Eligibility requirements include that projects must reduce, eliminate, or prevent water pollution and/or enhance water quality. In addition, project selection criteria include: technically/scientifically sound and effective methods, effective measures and indicators of progress and success, and collaboration and coordination among multiple stakeholders and agencies.	California State Water Resources Control Board Division of Water Quality (Non-point Source Program) Phone: (916) 341-5500 <a href="http://www.swrcb.ca.gov/nps/grants.html">http://www.swrcb.ca.gov/nps/grants.html</a>
Water Quality Planning Grants	Eligibility criteria include that applicants show a coordinated approach with relevant agencies and stakeholders will be employed. In addition, project selection criteria include: effective use of grant dollars, effective measures and indicators of progress and success, technically-sound approach, well-conceived strategy to achieve goals and objectives, and a watershed effort.	California State Water Resources Control Board Division of Water Quality (Non-point Source Program) Phone: (916) 341-5500 <a href="http://www.swrcb.ca.gov/nps/grants.html">http://www.swrcb.ca.gov/nps/grants.html</a>
Waste Diversion and Recycling Grant Program	Project selection criteria include: specific and measurable goals and objectives, objectives are achievable within indicated time frame, proposal of the best alternative, methods for evaluating the project success, and cost-effectiveness.	California Integrated Waste Management Board Division of Planning and Local Assistance Division Phone: (916) 255-2385 <a href="http://www.ciwmb.ca.gov/">http://www.ciwmb.ca.gov/</a>
Household Hazardous Waste Grant	Project selection criteria include: specific and measurable objectives, performance measures that address project success, and methods for evaluating and modifying the project during implementation.	California Integrated Waste Management Board Phone: (916) 255-2891 <a href="http://www.ciwmb.ca.gov/HHW/Grants/8thCycle/Apply.pdf">http://www.ciwmb.ca.gov/HHW/Grants/8thCycle/Apply.pdf</a>
<b>Florida</b>		
Solid Waste Recycling and Education Grant	Application requirements include: measurable objectives, description of methods to be used in evaluating the program success, and percent reduction in municipal solid waste disposed of per year resulting from the program.	Florida Department of Environmental Protection Division of Waste Management (Bureau of Solid and Hazardous Waste) Phone: (850) 921-1222 <a href="http://www.dep.state.fl.us/dwm/rules/62-716.htm">http://www.dep.state.fl.us/dwm/rules/62-716.htm</a>
Florida Water Advisory Panel	Threshold criteria for surface water restoration projects include: quantifiable restoration targets when appropriate, schedule for completion, and funding plan.	Florida Department of Environmental Protection Division of Water Resource Management Phone: (850) 487-1855 <a href="http://www.dep.state.fl.us/water/">http://www.dep.state.fl.us/water/</a>

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INVESTING IN THE ENVIRONMENT: ENVIRONMENTAL QUALITY GRANT & LOAN PROGRAMS

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Program	Eligibility/Prioritization/Selection Criteria	Contact Information
Non-point Source Management Program	Project selection criteria include: explicit short- and long-term goals, objectives, and strategies; strong working partnerships and collaboration with appropriate agencies and stakeholders; measurable improvements in water quality; and implementation of innovative methods or practices.	Florida Department of Environmental Protection Division of Water Resource Management (Non-point Source Management/Water Quality Standards Section) Phone: (850) 488-3605 <a href="http://www.dep.state.fl.us/water/slerp/nonpoint_stormwater/319h/319h.htm">http://www.dep.state.fl.us/water/slerp/nonpoint_stormwater/319h/319h.htm</a>
<b>Idaho</b>		
Natural Resources Conservation Income Tax Credit	Priority criteria include projects that have greatest public benefit and show landowner initiative to improve natural resources beyond the requirements.	Idaho Soil Conservation Commission Phone: (208) 332-8654 <a href="http://www.scc.state.id.us/programs.htm">http://www.scc.state.id.us/programs.htm</a>
Waste Water State Revolving Fund  Drinking Water Revolving Loan Fund	Only projects on the adopted priority list are eligible for funding. In order to receive funding, selected projects should be ready to proceed.	Idaho Department of Environmental Quality Division of Water Quality Phone: (208) 373-0413 <a href="http://www2.state.id.us/deq/Water/bj_grantloan.htm">http://www2.state.id.us/deq/Water/bj_grantloan.htm</a>
<b>Maryland</b>		
Non-point Source Program  Chesapeake Bay Implementation Grants Program	Evaluation criteria for awarding grants include that the project maximizes water quality, habitat protection and restoration, and other natural resource benefits; is located in a priority watershed; and addresses locally defined priorities and an issue of statewide concern. In addition, application requirements include project justification, goals, measurable objectives, expected measurable results, activities, timelines, and expected deliverables.	Maryland Department of Natural Resources Coastal Zone Management Division Phone: (410) 260-8736 [Non-point Source Management Program] Phone: (410) 260-8730 [Chesapeake Bay Implementation Grants Program] <a href="http://www.dnr.state.md.us/bay/czm/nps/rfpmain.html">http://www.dnr.state.md.us/bay/czm/nps/rfpmain.html</a>
Drinking Water State Revolving Loan Fund	Project ranking/scoring criteria include: public health benefits, compliance benefits, environmental and system reliability benefits, and affordability.	Maryland Department of the Environment Water Quality Financing Administration Phone: (410) 631-3981 <a href="http://www.mde.state.md.us/">http://www.mde.state.md.us/</a>

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INVESTING IN THE ENVIRONMENT: ENVIRONMENTAL QUALITY GRANT & LOAN PROGRAMS

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Program	Eligibility/Prioritization/Selection Criteria	Contact Information
Water Quality Revolving Loan Fund	Wastewater, non-point source, and estuary management projects are prioritized into a single project priority list. Projects are ranked using criteria for eligibility threshold, existing conditions, proposed benefits, and water quality improvement.	Maryland Department of the Environment Water Quality Financing Administration Phone: (410) 631-3981 <a href="http://www.mde.state.md.us/">http://www.mde.state.md.us/</a>
<b>Oregon</b>		
Oregon Watershed Enhancement Board Grants	Project selection criteria include: sound principles of watershed management, cost-effectiveness, monitoring and evaluation activities, assessment of baseline conditions, and collaboration among stakeholders and agencies.	Oregon Watershed Enhancement Board Phone: (503) 986-0178 <a href="http://www.oweb.state.or.us/">http://www.oweb.state.or.us/</a>
Non-point Source Pollution Grants	Application requirements include project objectives, measures of success, evaluation and feedback mechanisms, and project outputs. Selection criteria include nature and severity of the water quality problems to be addressed and potential for success. Furthermore, the proposed projects must address the state's water quality priority issues.	Oregon Department of Environmental Quality Water Quality Division Phone: (503)-229-6993 <a href="http://waterquality.deq.state.or.us/wq/nonpoint/wq319gt.htm">http://waterquality.deq.state.or.us/wq/nonpoint/wq319gt.htm</a>
Fish Restoration and Enhancement Program	The program seeks a balance between restoration and enhancement type projects. Project evaluation criteria include consideration of benefits to recreational and/or commercial fisheries. Additional consideration is given to projects that bring matching funds from other sources and make use of volunteers and non-profit organizations.	Oregon Department of Fish and Wildlife Phone: (503) 872-5252; ext. 5429 <a href="http://www.dfw.state.or.us/ODFWhtml/InfoCntrFish/InfoCntrFish.html">http://www.dfw.state.or.us/ODFWhtml/InfoCntrFish/InfoCntrFish.html</a>

**Source:** JLARC, based on information from other states.



## APPENDIX 12: INVESTMENT PRACTICE DETAIL, BY AGENCY

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See following pages.



# APPENDIX 13: JURISDICTIONS PROVIDING LOCAL GOVERNMENT PERSPECTIVES

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Almira, Town of  
 Asotin Conservation District  
 Benton Conservation District  
 Benton County  
 Birch Bay Water and Sewer District  
 Camas, City of  
 Carnation, City of  
 Cheney, City of  
 Citizen\* (Chair of Methow Basin Planning Unit)  
 Citizen\* (Clark County Citizen Designee,  
     Vice Chair, LCFRB)  
 Citizen\* (Cowlitz County Citizen Designee,  
     LCFRB)  
 Clark Conservation District  
 Clark County WSU Extension  
 Clark PUD  
 Columbia Conservation District  
 Columbia County  
 Colville Tribes  
 Connell, City of  
 Cowlitz County  
 Des Moines, City of (Marina)  
 Edmonds, Port of  
 Everett, City of  
 Everett, Port of  
 Ferry Conservation District  
 Fish First  
 Foster Creek Conservation District  
 Franklin County  
 Garfield County  
 Grant County  
 Grays Harbor County  
 Highlands Associates  
     (Tonasket/Pateros/Brewster/Omak)  
 Kennewick Irrigation District  
 Kennewick, City of  
 Kent, City of  
 King County (Department of Natural Resources)  
 King County Conservation District  
 Kitsap County  
 Kitsap County Sewer District #5  
 Kittitas County  
 Lincoln County Conservation District  
 Lower Columbia Fish Recovery Board  
 Marysville, City of  
 Methow Conservancy  
 Source: Berk & Associates

North Olympic Peninsula Lead Entity Group  
 North Yakima Conservation District  
 Oak Harbor, City of  
 Oak Harbor, City of (Marina)  
 Okanogan Conservation District  
 Okanogan County Weed Board  
 Okanogan County  
 Okanogan Health District  
 Okanogan, City of  
 Olympia, City of  
 Oroville, City of  
 Pacific Watershed Institute  
 Pasco, Port of  
 Pierce County  
 Pierce Conservation District  
 Roza Sunnyside Board of Joint Control  
 Seattle Public Utilities  
 Seattle, City of  
 Seattle-King County Public Health  
 Shoreline Wastewater Management District  
 Shoreline, City of  
 Skagit Conservation District  
 Snohomish Conservation District  
 Snohomish County  
     (Parks, Surface Water Management)  
 Snohomish Health District  
 Snoqualmie, City of  
 Soos Creek Water & Sewer District  
 South Yakima Conservation District  
 Southwest Washington Health District  
 Spokane County Conservation District  
 Spokane, City of  
 Stevens PUD  
 Sultan, City of  
 Tacoma, City of  
 Val Vue Sewer District  
 Vancouver, City of  
 Walla Walla County  
 Washington Association of Water and Sewer  
     Districts  
 Washington Public Ports Association  
 Washington Public Utility District Association  
 Wenatchee, City of  
 Whatcom County Conservation District  
 Woodland, City of  
 Yakima, City of



## APPENDIX 14 – PROGRAM APPLICATION AND FUNDING AVAILABILITY SCHEDULES FOR 1999-01 FUNDS

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See Following Page.

**Program Application and Funding Availability Schedules for 1999-01 Funds**

PROGRAM APPLICATION DEADLINES		CONTRACTS SIGNED / FUNDS AVAILABLE		
WWRP	May-98			
	Jun-98			
	Jul-98			
	Aug-98			
	Sep-98			
ALEA	Oct-98			
	Nov-98			
	Dec-98			
Ecology - WQ, 1st cycle	Jan-99			
SRFB (GSRO projects)	Feb-99			
PWTF 1st cycle	Mar-99			
	Apr-99			
	May-99			
CREP 1st cycle; DAIRY 1st cycle; CC - WQ (implementation grants)	Jun-99			
BIENNIUM BEGINS				
SRFB (IRT)	Jul-99			CREP 1st cycle; DAIRY 1st cycle; CC - WQ (implementation grants); WWRP; SRFB (IRT)
Ecology - PPG	Aug-99			Ecology - WQ, 1st cycle
Ecology - CPG	Sep-99			SRFB (GSRO projects)
	Oct-99			
CC - WQ (competitive grants)	Nov-99			
	Dec-99			
SRFB - 1st cycle	Jan-00	Ecology - CPG; Ecology - PPG; CC - WQ (competitive grants)		
PWTF 2nd cycle; Ecology - WQ, 2nd cycle	Feb-00	SRFB - 1st cycle		
	Mar-00			
	Apr-00			
	May-00			
CREP 2nd cycle; DAIRY 2nd cycle	Jun-00	PWTF 1st cycle; CREP 2nd cycle; DAIRY 2nd cycle		
	Jul-00	Ecology - WQ, 2nd cycle		
	Aug-00			
	Sep-00			
	Oct-00			
SRFB - 2nd cycle	Nov-00			
	Dec-00			
	Jan-01	SRFB - 2nd cycle		
	Feb-01			
	Mar-01			
	Apr-01			
	May-01	PWTF 2nd cycle		
	Jun-01			
	Jul-01			
BIENNIUM ENDS				

Source: JLARC, using information provided by agencies.

## APPENDIX 15 – MEMO DESCRIBING LEGISLATIVE INTENT FOR PROGRAMS INCLUDED IN THE AUDIT

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See Following Page.

